

TAB 199

AHERF**Allegheny Health, Education
and Research Foundation**D L. Clark Building, 4th Floor
Pittsburgh, Pennsylvania 15212**MEMORANDUM**

DATE: April 18, 1997

TO: Distribution

FROM: John T. Lydon
Director, Accounting & Financial Reporting, Pittsburgh

Chuck Lisman
Director, Financial Services

SUBJECT: Coopers & Lybrand Audit Requests

Attached you will find the Fiscal Year 1997 Coopers & Lybrand (C&L) Audit Schedule Request for Allegheny Health, Education and Research Foundation and affiliates. Please read through this request and prepare the appropriate schedules/analyses relative to your areas of responsibility. Note that there are two time frames outlined in this request, preliminary fieldwork scheduled to begin April 28, 1997 and year-end fieldwork scheduled to begin in late July or early August. Any schedules/analyses requested for preliminary fieldwork should be prepared as of March 31, 1997 and returned to Accounting by Tuesday, April 29, 1997. Year-end schedules/analyses should be prepared as of June 30, 1997 and returned by Thursday, July 31, 1997. The schedules/analyses prepared for the preliminary fieldwork should be "rolled forward" to account for the activity from April through June and available for review at year-end. As mentioned in the C&L request, they would like all schedules/analyses and any other supporting documentation to be supplied on disk in either Lotus 1-2-3 or Wordperfect format if possible. Please note that C&L will also be updating their understanding of our internal control environment during preliminary fieldwork, making it necessary for them to meet with a number of you in addition to any specific schedules/analyses that have been requested. If you have any questions on any matter related to this request please call Chuck Lisman at (412) 442-2153 for Delaware Valley entities or Jack Lydon at (412) 442-2194 for Pittsburgh entities. Thank you.

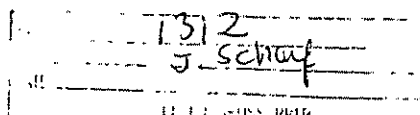
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CANDEP 01343



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April 15, 1997

Mr. Jack Lydon
Director
Allegheny Health, Education
and Research Foundation
503 Martindale Street
Fourth Floor
Pittsburgh, PA 15212

Dear Jack,

Enclosed please find a copy of our annual schedule request. The request has been prepared at an AHERF level with a separate analysis of the recent affiliations and should be utilized as considered applicable for each affiliate entity. If you have any questions please contact me at 355-7531, Christa Porter at 355-8029, Mark Kirstein at 355-7546 or Amy Frazier at 392-4933. As originally discussed, we are expecting to perform preliminary fieldwork beginning April 28 through May 30, 1997.

Sincerely,

Brian Christian

Brian Christian

Enclosure

cc: A. Adamczak
D. Cancelmi
C. Lisman

CANDEP 01344

AHERF
Fiscal Year 1997 Schedule Request
Preliminary and Year End Fieldwork

The following document represents our annual schedule request which identifies the more significant schedules that we will need to complete the audit of AHERF and its affiliates. The schedules should be prepared for each entity as considered applicable. Consistent with previous years, **all schedules should be completed as of June 30**, however, in addition, certain schedules should also be provided at an interim date (i.e., March 31, 1997) to be used in completion of early substantive audit testing. Page two of this document includes a summary those areas that will be included in our early substantive audit testing procedures. This document is intended to be a guide, internal schedules which meet the same objective should be substituted in place of the requested schedule.

Consistent with the 1996 audit we will utilize the Coopers & Lybrand Audit Support System (CLASS) on the AHERF audits. CLASS is our Firm's version of a "paperless" audit. We are requesting that you provide us the schedules and any other supporting documentation on a disk in either LOTUS 1-2-3 or WordPerfect format. If there are items which are not available on disk, such as contracts, debt instruments or invoices, there is no need to create a file, we will simply use the hard copy evidence as we have done in the past.

Additionally, we will update our understanding and test the internal control environment during our preliminary audit phase. Our primary areas of focus include revenue, both the patient and professional fee cycles, payroll, purchasing, grant administration, student revenues, intercompany charges, fixed assets and treasury systems. Our procedures will involve meeting with operational personnel, documenting changes to the environment and selecting samples of transactions and specific controls for testing. We would appreciate your assistance in alerting these personnel that we will be in contact with them during our preliminary phase.

CANDEP 01345

**AHERF
PRELIMINARY PHASE
AUDIT AREAS**

- Patient Accounts Receivable, including CRA's (*)
- Malpractice and Workers Compensation Accruals Testing (*)
- Property, Plant & Equipment (*)
- Other Assets (*)
- Other Liabilities (*)
- Review of all managed care contracts for the AHERF system. (*)
- Document controls of investment system and review supporting documentation for propriety of classifications.
- Document and test any significant system conversions.
- Review Board of Trustee minutes.
- Summary of all attorneys consulted during the fiscal year for preparation and mailing of legal letters.
- Fluctuation analysis for all entities & other analytical procedures.
- Audit of the AHERF, AVH, and Forbes defined benefit retirement plan and Zurbrugg's defined contribution retirement plans as of December 31, 1996. (See page 10 of this document for a detailed Schedule Request covering these procedures.)
- Opening balance sheet procedures, including purchase accounting adjustments for AVH, Forbes and Graduate entities
- Depreciation recapture calculation
- New lease transactions.

(*) For those accounts that we perform early substantive procedures as of the interim date of March 31, 1997, we will update the activity for these areas to year end and perform the appropriate audit tests, including comparative analyses as of June 30, 1997.

**AHERF SCHEDULE REQUEST
FISCAL YEAR 1997**

CASH

- Comparative schedule of cash balances at June 30, 1997
- Reconciliation of all accounts to bank statements and general ledgers
- Identify restrictions on cash accounts.
- Preparation of bank confirmations
- Analysis of intercompany transfers.

INVESTMENTS (All Trustee Held, Board Designated, Endowment, Working Capital and Other Investments):

- Comparative schedule of investments, segregated by investment type, including a comparison to market value.
- Reconciliation of all accounts to the applicable trust statements.
- Analysis of accrued interest receivable.
- Analysis of investment income
- Identify restrictions on accounts.
- Preparation of bank confirmations.
- Analysis of transfers to Mellon Master Trust.
- Reconciliation of system conversion.

PATIENT ACCOUNTS RECEIVABLE (including CRA's) / PROFESSIONAL FEE REVENUE

The following list represents our request for both patient accounts receivable and professional fee revenue. Each bullet point may not be applicable to both areas.

- Provide a copy of management's statistical package at March 31, 1997 and June 30, 1997.
- Summarize accounts receivable, including in-house, DNFB and final billed, for inpatient and outpatient accounts as considered appropriate. Include reconciliations to the general ledger. (Including the number of patients and patient days (where applicable) for each category).
- Summarize number of patients and patient days (where applicable) for each category at March 31 and June 30. (category would be in-house, DNFB and Final billed on an inpatient and outpatient basis).
- Prepare a comparative aged A/R summary by significant payor type, based on date of service for outpatient and date of discharge for inpatient.
- Provide remittance advice summaries for the fiscal year.
- Summarize remittance advices subsequent to year end through August 29, 1997
- Provide analyses of contractual allowances for DNFB and in-house
- Provide a listing of all patient receivable balances greater than 90 days old in excess of \$100,000 including documentation on the status of the account.
- Analyze the cash clearing accounts for inpatient/outpatient balances and provide a detailed listing of unposted cash at year end

**AHERF SCHEDULE REQUEST
FISCAL YEAR 1997**

**PATIENT ACCOUNTS RECEIVABLE (Including CRA's) / PROFESSIONAL FEE
REVENUE. continued**

- Provide a listing of "credit balance accounts" for accounts greater than \$25,000
- At year-end, provide a high dollar account analysis for patient account balances in excess of \$200,000. The analysis should include payor, patient number, patient name, account balance, contractual allowance estimates recorded, net receivable, aging for final billed account and status of the account. This year-end analysis should be updated for subsequent receipts through August 22, 1997
- Analyze the allowance for doubtful accounts as of March 31 and June 30, 1997. Compare the estimate with prior year. Summarize account balance activity for the year to bad debt expense by payor. Additionally, any internal analyses of bad debt methodologies that provide consistency between entities should be provided.
- Summarize third party payor denials
- Summarize charity care, including charges foregone and expenses to administer the care
- Provide copies of the results of all KEPRO reviews at March 31, 1997 and updated through June 30, 1997
- Provide a summary of CRA activity at March 31, 1997 and updated through June 30, 1997. Summary should include beginning balances, cash receipts, cash payments, other activity and ending balances.
- Analyze ending CRA balances for all open years. This should include the current year estimate.
- Summarize cash correspondence for prior years CRA's and make available third party correspondence during the year.
- Provide a summary of PIP account activity at March 31, 1997 and updated through June 30, 1997.
- Analyze ending PIP balances for all open years.
- Make available third party correspondence related to CRA and PIP account activity during the current fiscal year.
- Preparation of KEPRO confirmations.

STUDENT ACCOUNTS RECEIVABLE

- Comparative schedule of balances with prior year
- Analysis of allowance for doubtful accounts.
- Analysis of bad debt expense.
- Listing of all credit balances at June 30, 1997
- Statistical information (i.e., student enrollment by program and financial aid, rates, etc.)

CANDEP 01348

**AHERF SCHEDULE REQUEST
FISCAL YEAR 1997**

INTERCOMPANY ACCOUNTS

- Provide a detailed analysis of all intercompany accounts including reconciliation to the general ledger
- Assess collectibility of receivables
- Make available intercompany overhead charge model and policies
- Provide a summary of all G/L accounts that represent intercompany accounts

OTHER RECEIVABLES (including pledges and grants receivable)

- Comparative schedule of balances at March 31, 1997 and June 30, 1997
- Provide a summary of detail with reconciliation to the general ledger.
- Assess collectibility of receivables

INVENTORY

- Comparative schedule of balances with prior year.
- Provide an analysis of the inventory results (i.e., book to physical adjustments).

OTHER ASSETS (including deferred financing costs, equity investments)

- Comparative schedule of balances at March 31, 1997 and June 30, 1997.
- Summarize current year activity with a reconciliation to the general ledger.
- Available financial statements of equity investments, including an analysis of any loss commitments from those investments.

PROPERTY, PLANT AND EQUIPMENT

- Provide a summary of current year activity, (i.e., beginning balance plus additions less disposals equals ending balance) with a reconciliation of the subsidiary ledger to the general ledger. (This schedule should be available for year-end fieldwork only)
- Identify any non-cash transactions during the current year
- Analyze depreciation/amortization expense and reconcile to the income statement.
- Summarize significant gains/losses on retirements, if any.
- Provide a copy of the capital additions budget with a comparison of budget vs. actual and significant variances analyzed.
- Provide capitalized interest calculation at June 30, 1997.

**AHERF SCHEDULE REQUEST
FISCAL YEAR 1997**

LEASING

- Make available all new capital and operating lease documents.
- Prepare a five year payout schedule for both operating and capital lease arrangements at June 30, 1997
- Provide a detail of rent expense by entity
- SAS #13 analysis for all new leases
- Analysis of all sale / leaseback transactions
- Summary of open commitments

ACCOUNTS PAYABLE

- Comparative schedule of balances with prior year.
- Provide reconciliation of the subsidiary ledger to the general ledger
- Make available check registers and subsidiary ledgers to perform a search for unrecorded liabilities.
- Provide a listing of open purchase orders at June 30, 1997

ACCRUED EXPENSES

- Comparative schedule of balances at June 30, 1997.
- Provide supporting documentation for significant accruals (vacation, payroll, sick pay, student deposits and prepayments, etc)

LONG-TERM DEBT

- Summary of account balance and activity during the fiscal year and reconciliation to the general ledger at June 30, 1997.
- Provide quarterly covenant calculations for all debt agreements.
- Preparation of debt confirmations.

PENSION COST

- Summarize current year activity and reconcile to the general ledger.
- Reconcile current year expense allocated to the respective entities and to the plan's actuary report.
- Summarize the status of plan transitions for those benefit plans merging into the AHERF system.

**AHERF SCHEDULE REQUEST
FISCAL YEAR 1997**

ADVANCES FROM THIRD-PARTY PAYORS

- Summarize activity of advance account during the year and reconcile schedule to the general ledger.
- Provide correspondence from the payor regarding changes in the authorized amount available
- Preparation of confirmations

DEFERRED REVENUE

- Comparative schedule with prior year
- Evaluate the propriety of the amount recorded at June 30, 1997

MALPRACTICE AND WORKERS' COMPENSATION ACCRUAL

- Comparative schedule with prior year. Analyze the balance in relation to recent history and timing of insurance coverage.
- Reconcile the current year activity of the accrual to the general ledger.
- Prepare a summary of AHSPIC and HAHN's funded status.
- Provide actuarial report supporting the accrual for malpractice claims
- Make available claims data for testing purposes.
- Provide actuarial report for self-insurance trust funds.
- Provide a detail of commercial policies purchased for run out at Graduate, Forbes and AVH.

PHYSICIAN CONTRACTS / MANAGED CARE AGREEMENTS

- Provide a listing of all third party agreements.
- Provide a detail of physician contracts.
- Provide a summary of covered lives by third party agreement.

NET ASSETS

- Summarize the activity in the unrestricted, temporarily restricted and permanently restricted accounts, with a reconciliation to the general ledger.

OPENING BALANCE SHEETS (AVH, Forbes and Graduate entities)

- Valuations for all property, plant and equipment at acquisition date (opening balance sheet dates).
- Bank statements confirming opening cash balances
- Accounts receivable analyses:
 - 1 Run out of opening accounts receivable balances.
 - 2 Remittance advice summaries for testing
 - 3 Subsequent receipts on outstanding patient accounts receivable

**AHERF SCHEDULE REQUEST
FISCAL YEAR 1997**

OPENING BALANCE SHEETS (AVH, Forbes and Graduate entities). continued

- 4 Credit balances (i.e., any large credit balances in account receivable that adjust purchase price).
- Policy analysis.
 - 1 Bad debt reserve using AHERF methodology vs. current methodology (i.e., support for purchase accounting adjustment).
 - 2 Workers compensation / Malpractice reserve adjustments (i.e., purchase accounting for consistent policies).
 - 3. Other
- Supporting documentation for other receivables and assets, other liabilities and debt.
- Legal due diligence review
- Listing of employees covered under severance agreements and their related compensation
- Analysis of all restructuring charges by entity
- Detail of depreciation recapture calculation.
- Make available all affiliation agreements.
- Copies of C&L reviewed 1996 Graduate Deloitte and Touche working papers.

**AHERF SCHEDULE REQUEST
FISCAL YEAR 1997**

OTHER SCHEDULES

- Final trial balances at March 31, 1997 and June 30, 1997, including a download into Lotus 1-2-3
- Make available final general ledger at March 31, 1997 and June 30, 1997
- Internal financial statements for March 31, 1997 and June 30, 1997
- Summarize significant related party transactions at June 30, 1997 for footnote disclosure.
- Provide supporting information for the financial statement preparation.
- Provide internal analysis, if any, of identified organizations that would be covered by SOP 94-3 "Reporting of Related Entities by Not-for-Profit Organizations".
- Provide supporting documentation for commitments and contingencies, including physician contracts and employment agreements.
- Reconciliation of all system conversions

**AHERF RETIREMENT PLANS
SCHEDULE REQUEST**

As indicated above, during our preliminary phase of fieldwork, we will complete our procedures covering the AHERF, AVH, and Forbes defined benefit retirement plan and Zurbrugg's defined contribution retirement plans. Similar to the financial statement internal control documentation, we will need to be in contact with individuals within the human resource and payroll departments. We would appreciate your assistance in alerting them of our requirements. In connection with these procedures we will also need the following information.

DEFINED BENEFIT PLANS

- Reconciliation of participant census data to payroll
- Copies of plan amendments, if any.
- Trust statements for the plan year ended December 31, 1996.
- List of active participants as of December 31, 1996
- List of new retirees during the plan year
- List of participants who have terminated during 1996 and are vested.
- List of participants receiving benefit payments.
- Actuarial valuation for the plan year ended December 31, 1996.
- Financial statements with supporting documentation for disclosure.

DEFINED CONTRIBUTION PLANS

- Reconciliation of participant census data to payroll
- Copies of plan amendments, if any.
- Trust statements for the plan year ended December 31, 1996.
- List of active participants as of December 31, 1996.
- List of new retirees during the plan year.
- List of participants who have terminated during 1996 and are vested.
- List of participants receiving benefit payments.
- Financial statements with supporting documentation for disclosure.

TAB 200

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION &
RESEARCH FOUNDATION,

Civil Action

Plaintiff,

No. 00-684

vs.

PRICEWATERHOUSECOOPERS, L.L.P.,

Defendant.

Videotape deposition of STEPHEN H.
SPARGO, called for examination under the statute,
taken before me, Jaci R. Traver, RPR, CRR, and
Notary Public in and for the State of Ohio, at
the offices of Jones Day, 500 Grant Street,
Pittsburgh, Pennsylvania, on Thursday, the 17th
day of July 2003 at 9:30 a.m.

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RENNILLO REPORTING SERVICES
A LEGALINK AFFILIATE

2500 Erieview Tower, 1301 East Ninth Street, Cleveland, Ohio, 44114 tel 216 523 1313 fax 216 263 7070
One Cascade Plaza, Suite 1950, Akron, Ohio, 44308 tel 330 374 1313 fax 330 374 9689
1.888.391.3376 (DEPO)

RENNILLO REPORTING SERVICES

A LEGALINK AFFILIATE COMPANY

Stephen Spargo

<p style="text-align: right;">93</p> <p>1 reach some preliminary conclusions or decisions 2 as to whether they would be recorded or not. 3 And many times you couldn't finalize those 4 decisions until the audit was essentially 5 complete. 6 Q. So you would put some things on 7 hold? 8 A. Correct. 9 Q. Or table them for a while? 10 A. Correct. Correct. 11 Q. And when the audit fieldwork was 12 complete, then you would make a final call on 13 the adjustment, one way, up or down? 14 A. Correct. 15 Q. If Coopers proposed adjustments, 16 how would they be addressed at these meetings, 17 or in the final meetings? 18 A. Well, the manager, Mark or Amy or 19 the staff person responsible would discuss the 20 adjustment, why, you know, perhaps its 21 additions to PP&E that we had failed to record, 22 because of the invoice didn't come in until 23 August and we didn't know about it, but it 24 clearly was a purchase made before June 30th. 25 And they would say basically how</p>	<p style="text-align: right;">95</p> <p>1 had a healthy respect for each other. I 2 thought he was one of the more reasonable audit 3 partners that I had run across in my years. 4 Q. In terms of your working 5 relationship? 6 A. Yes. And his abilities. 7 Q. Do you recall any specific examples 8 of significant dollar amounts in adjustments 9 that Coopers proposed at year-end as a part of 10 their audit work that you had to address and 11 come to a determination on? 12 A. The easiest one, the one you could 13 always count on was cost report. You know, 14 they would send their person in to evaluate all 15 open cost reports, Medicare, Medicaid. They 16 would never come to the same conclusion as Joe 17 Scharf. There would always be some 18 differences, plus or minus. 19 And they would propose adjustments 20 and we would have to decide whether, you know, 21 we agreed with how they reached their 22 conclusions and whether we wanted to book them 23 or not. 24 Patient accounts receivable was 25 always a big adjustment to the reserve for bad</p>
<p style="text-align: right;">94</p> <p>1 they arrived at their number that they're 2 proposing to adjust. And we would discuss it 3 until hopefully all of us have a consistent or 4 similar understanding. 5 Q. So it was management by consensus 6 on these adjustment calls? 7 A. Many times, yeah. 8 Q. And ultimately, who had the final 9 say on whether an adjustment would be booked? 10 A. Bill Buettner and I, I guess. But 11 it never really came to that. 12 Q. You never had a disagreement with 13 him about any adjustment he proposed in the 14 end? 15 A. In the end, no. 16 Q. Did Mr. McConnell have say above 17 you? 18 A. If we needed to go that route, but 19 no. 20 Q. You don't remember it happening? 21 A. No. 22 Q. What was -- could you characterize 23 for me your relationship with Mr. Buettner in 24 the audit process while you were at AHERF? 25 A. I think it was good. I think we</p>	<p style="text-align: right;">96</p> <p>1 debts or the contractual allowances within 2 accounts receivable. 3 Q. Was the audit work -- there may 4 have been meetings going on afterwards, but the 5 actual review of financial data by Coopers & 6 Lybrand typically done by Labor Day? 7 A. Typically, yes. 8 Q. When would be a typical closing 9 meeting, as I understood took place, occur? 10 A. Right around Labor Day, if we 11 could. 12 Q. And what was the purpose, 13 generally, of the closing meeting? 14 A. Pencils down, finalize the numbers, 15 start working on writing the footnotes, who was 16 going to do what, who was going to review them, 17 when would they be available for review. We 18 finalized numbers so we could move into the 19 footnote disclosures and some other areas. 20 Q. So the figures at that point were 21 essentially fixed and now you're working on 22 narrative and presentation? 23 A. Correct. 24 Q. Do you remember any post closing 25 meetings financial adjustments, that is, number</p>

24 (Pages 93 to 96)

Stephen Spargo

<p style="text-align: right;">97</p> <p>1 adjustments during the time you were at AHERF?</p> <p>2 A. After they were final?</p> <p>3 Q. After the closing meeting. Changes</p> <p>4 to numbers.</p> <p>5 A. No.</p> <p>6 Q. None that you became aware of,</p> <p>7 anyway?</p> <p>8 A. No.</p> <p>9 Q. Is that right?</p> <p>10 A. That's right.</p> <p>11 Q. Forgive my question. Did you have</p> <p>12 any perception or impression of the</p> <p>13 relationship Mr. McConnell shared with</p> <p>14 Mr. Buettner?</p> <p>15 MR. RYAN: Objection.</p> <p>16 Q. Let me try that over.</p> <p>17 You had from time to time had the</p> <p>18 opportunity to perceive Mr. Buettner and Mr.</p> <p>19 McConnell working together?</p> <p>20 A. I did.</p> <p>21 Q. Quite frequently?</p> <p>22 A. Quite frequently.</p> <p>23 Q. You knew that they met frequently?</p> <p>24 A. I did.</p> <p>25 Q. Throughout the year, not just the</p>	<p style="text-align: right;">99</p> <p>1 meant?</p> <p>2 A. No, you did not.</p> <p>3 Q. And why is it -- strike that.</p> <p>4 How is it that you came to that</p> <p>5 conclusion?</p> <p>6 A. Because of the way certain issues</p> <p>7 were addressed, particularly with accounts</p> <p>8 receivable and the Graduate acquisition. But</p> <p>9 also because of the huge amount of work that we</p> <p>10 threw Coopers' way or held over their heads --</p> <p>11 not held over their heads, but enticed them</p> <p>12 with, special consulting work, where they made</p> <p>13 the majority of their money from their service</p> <p>14 to AHERF.</p> <p>15 Q. The A/R and Graduate acquisition</p> <p>16 concerns you mentioned, the way Coopers dealt</p> <p>17 with them?</p> <p>18 A. Yes.</p> <p>19 Q. What generally -- I believe with</p> <p>20 fervor that we will address both of those later</p> <p>21 today, but my question is: Generally, what do</p> <p>22 you refer to there?</p> <p>23 A. A/R had been a problem at Allegheny</p> <p>24 and at AHERF for a long time. And those of us</p> <p>25 who were fairly close to the numbers had very</p>
<p style="text-align: right;">98</p> <p>1 audit year, but the calendar year?</p> <p>2 A. Correct.</p> <p>3 Q. And what, if any, impression did</p> <p>4 you ever form about the nature of their</p> <p>5 relationship?</p> <p>6 A. I guess the easiest way to describe</p> <p>7 it is a lot of clients have asked me what I</p> <p>8 learned from the AHERF debacle. And in</p> <p>9 addition to achieving economies through</p> <p>10 consolidation and integration, being methodical</p> <p>11 about acquiring physician practices and</p> <p>12 integrating them into a --</p> <p>13 Q. The need to do that.</p> <p>14 A. The need to do that. I've also</p> <p>15 shared with them the need to maintain a healthy</p> <p>16 distance with your auditors. Change auditors</p> <p>17 every three years and don't allow CFOs and</p> <p>18 audit partners to get too comfortable with each</p> <p>19 other.</p> <p>20 Q. So am I right to take from that</p> <p>21 answer your perception was Mr. McConnell and</p> <p>22 Buettner became too tight with each other?</p> <p>23 MR. RYAN: Objection.</p> <p>24 A. Yes. That's correct.</p> <p>25 Q. Did I mischaracterize what you</p>	<p style="text-align: right;">100</p> <p>1 little confidence in the numbers that came out</p> <p>2 of the patient accounting function, and more</p> <p>3 importantly, less confidence in their ability</p> <p>4 to accurately submit claims and collect amounts</p> <p>5 owed to Allegheny for services rendered, or</p> <p>6 AHERF.</p> <p>7 And the business office function</p> <p>8 was in dire need of an overhaul; management,</p> <p>9 staff, processes, systems, you name it. And in</p> <p>10 discussions between Mr. Buettner and Mr.</p> <p>11 McConnell, it was always my opinion that the</p> <p>12 severity of that situation was always somehow</p> <p>13 mitigated or not addressed as it should have</p> <p>14 been.</p> <p>15 Q. Understated?</p> <p>16 A. Understated. Brushed off.</p> <p>17 Adjustments not proposed, let alone made.</p> <p>18 Allowances given for less than expected</p> <p>19 performance within those functions.</p> <p>20 Q. What about the Graduate acquisition</p> <p>21 did you refer to?</p> <p>22 A. The Graduate is a whole reserve</p> <p>23 fiasco that --</p> <p>24 Q. The reserve establishment and</p> <p>25 transfer?</p>

25 (Pages 97 to 100)

Stephen Spargo

<p style="text-align: right;">101</p> <p>1 A. Yes.</p> <p>2 Q. That occurred shortly before, if</p> <p>3 not a little more than shortly before the time</p> <p>4 you left the enterprise?</p> <p>5 A. Correct.</p> <p>6 Q. We will come back to both those</p> <p>7 issues.</p> <p>8 A. I'm sure.</p> <p>9 Q. You also mentioned a huge amount of</p> <p>10 work that was either thrown or was suggested to</p> <p>11 Coopers & Lybrand might be thrown to them that</p> <p>12 was not audit work specific.</p> <p>13 To what did you refer there?</p> <p>14 A. Feasibility studies, accounts</p> <p>15 receivable projects, working in the business</p> <p>16 office. I mean there were -- in a system that</p> <p>17 large, there were consulting opportunities that</p> <p>18 came up constantly, not every week, but every</p> <p>19 month or every so many months.</p> <p>20 And if memory serves me correctly,</p> <p>21 I think the audit fees for AHERF that Coopers</p> <p>22 charged were in the neighborhood of</p> <p>23 three-quarters of a million dollars, but I</p> <p>24 believe their annual payments to Coopers &</p> <p>25 Lybrand was more in the neighborhood of 2 to</p>	<p style="text-align: right;">103</p> <p>1 Q. He was, in your estimation, less</p> <p>2 technical and detail oriented on accounting and</p> <p>3 financial reporting issues than, perhaps, you</p> <p>4 or Mr. Adamczak or Mr. Cancelmi?</p> <p>5 A. Definitely much less than Mr.</p> <p>6 Adamczak and Cancelmi, and even less than me.</p> <p>7 Q. And you formed these impressions</p> <p>8 from your meetings and discussions with him</p> <p>9 about the financial statements as they were</p> <p>10 prepared?</p> <p>11 A. Yes.</p> <p>12 Q. And other financial issues as they</p> <p>13 arose?</p> <p>14 A. Yes. Yes.</p> <p>15 Q. Did you also from those</p> <p>16 conversations and from your observation, Mr.</p> <p>17 Buettner and Mr. McConnell in their</p> <p>18 relationship, form an impression about whether</p> <p>19 Mr. McConnell -- or a perception about whether</p> <p>20 Mr. McConnell relied on Mr. Buettner or Coopers</p> <p>21 & Lybrand to help him sort through financial</p> <p>22 reporting and financial issues?</p> <p>23 MR. RYAN: Objection.</p> <p>24 A. I think he relied on them a great</p> <p>25 deal.</p>
<p style="text-align: right;">102</p> <p>1 3 million.</p> <p>2 Q. And did you hear Mr. McConnell from</p> <p>3 time to time mention these non-audit</p> <p>4 opportunities to Mr. Buettner?</p> <p>5 A. Whether I heard him mention them or</p> <p>6 whether they were just afforded those non-audit</p> <p>7 opportunities --</p> <p>8 Q. You became aware that they were so</p> <p>9 afforded?</p> <p>10 A. Yes. Yes.</p> <p>11 Q. Was this breakdown of financial</p> <p>12 remuneration from AHERF to Coopers & Lybrand</p> <p>13 relatively consistent during the time you were</p> <p>14 there, from year to year?</p> <p>15 MR. RYAN: Objection.</p> <p>16 A. I believe so.</p> <p>17 Q. That's your best recollection?</p> <p>18 A. Yes. Yes.</p> <p>19 Q. Was Mr. McConnell a CPA?</p> <p>20 A. No.</p> <p>21 Q. Did you ever form a perception or</p> <p>22 an understanding of his level of understanding</p> <p>23 of accounting and finance reporting issues?</p> <p>24 A. Mr. McConnell was not real</p> <p>25 technical, not detail-oriented.</p>	<p style="text-align: right;">104</p> <p>1 Q. Why is it you say so?</p> <p>2 A. Because I know he would bounce</p> <p>3 things off of Mr. Buettner at their monthly</p> <p>4 Duquesne Club luncheons. That he and I would</p> <p>5 talk about whatever technical issues there were</p> <p>6 that lied before us, whether it's accounting</p> <p>7 for the captive insurance company or merging</p> <p>8 the Vermont captive into AHSPIC, or entries to</p> <p>9 report goodwill on physician practices. But I</p> <p>10 think things that caused David to stumble and</p> <p>11 pause a little bit, he would put on his list to</p> <p>12 discuss with Mr. Buettner.</p> <p>13 Q. Were you present at the meetings at</p> <p>14 the Duquesne Club, or did you help Mr.</p> <p>15 McConnell prepare for such meetings, or both?</p> <p>16 A. I attended a few over the course of</p> <p>17 three years or so. And "a few" meaning five or</p> <p>18 less.</p> <p>19 Q. Did these happen every month</p> <p>20 throughout the year, as you understood it?</p> <p>21 A. I think they were intended to</p> <p>22 happen every month, but I don't think schedules</p> <p>23 allowed it.</p> <p>24 Q. And this was throughout the time</p> <p>25 1993 to 1997?</p>

26 (Pages 101 to 104)

Stephen Spargo

<p style="text-align: right;">197</p> <p>1 A. Yes, it is.</p> <p>2 Q. June 30, 1996?</p> <p>3 A. Yes. The bad debt reserve</p> <p>4 handwriting is Dan Cancelmi's.</p> <p>5 Q. Right. These are asset accounts</p> <p>6 listed here; am I right?</p> <p>7 A. Yes.</p> <p>8 Q. Under the Hahnemann entries?</p> <p>9 A. Correct. Correct.</p> <p>10 Q. Does it appear to you from this</p> <p>11 schedule that for the 4 million related to</p> <p>12 Hahnemann, and some of the 3 million related to</p> <p>13 St. Chris Hospital, the reserves related to CRA</p> <p>14 accounts, were, in fact, not credit balances</p> <p>15 already in existence, but rather were new</p> <p>16 receivables being established?</p> <p>17 A. That's correct. Or it could have</p> <p>18 been --</p> <p>19 MR. RYAN: I would like to object</p> <p>20 to that question, please.</p> <p>21 Q. Go ahead.</p> <p>22 A. They're either newly-established</p> <p>23 receivables or entries to reduce</p> <p>24 previously-established credit balances.</p> <p>25 Q. Do you know who directed Mr. Scharf</p>	<p style="text-align: right;">199</p> <p>1 A. Uh-huh.</p> <p>2 Q. Do you see that the capitalized</p> <p>3 interest entries appear to relate to -- or some</p> <p>4 organization portion of them relate to a prior</p> <p>5 year?</p> <p>6 A. Yeah. Yeah.</p> <p>7 Q. Do you recall any discussion of</p> <p>8 that?</p> <p>9 A. Yeah, I think I do.</p> <p>10 Q. What do you recall about it?</p> <p>11 A. Yeah, that's a stretch. I guess to</p> <p>12 put it in context, up until 1996 what the</p> <p>13 auditors would do would be to find some way to</p> <p>14 get some comfort with our accounts receivable</p> <p>15 balances, either through detailed calculations</p> <p>16 or a combination of calculations and the SUD,</p> <p>17 or the schedule of unadjusted differences. So</p> <p>18 that any deficiency or shortfall they might</p> <p>19 compute would be offset by other offsetting</p> <p>20 entries. So that nothing would have to be</p> <p>21 booked.</p> <p>22 One of the offsetting entries in</p> <p>23 1995 would be capitalized interest. In 1996,</p> <p>24 the difference that Coopers was able to</p> <p>25 calculate wasn't quite small enough, so we had</p>
<p style="text-align: right;">198</p> <p>1 to prepare these kinds of entries?</p> <p>2 A. I don't offhand, but as my memory</p> <p>3 comes back, my guess is we told Mr. Scharf to</p> <p>4 go find some reserves in his cost report</p> <p>5 analyses, so that he wouldn't have done that</p> <p>6 without my knowledge.</p> <p>7 Q. And his work in this effort to</p> <p>8 identify new CRA reserves was something shared</p> <p>9 with Coopers & Lybrand as well?</p> <p>10 A. Oh, I would imagine, yes.</p> <p>11 Q. Do you recall doing it?</p> <p>12 A. I don't.</p> <p>13 Q. If the CRA reserve came up as a --</p> <p>14 A. Has to be shared with Coopers &</p> <p>15 Lybrand, they were all forwarded the CRA</p> <p>16 balances from year to year, so the activity</p> <p>17 recorded in those would beg the question, what</p> <p>18 is it.</p> <p>19 Q. So it was shared in at least that</p> <p>20 way?</p> <p>21 A. Absolutely. It's impossible not</p> <p>22 to.</p> <p>23 Q. Ask you to flip back to Exhibit 122</p> <p>24 for a minute, which is the handwritten</p> <p>25 Mr. Cancelmi schedule.</p>	<p style="text-align: right;">200</p> <p>1 to go reserve shopping and to book something so</p> <p>2 that they could bring that difference between</p> <p>3 their calculation and our numbers down to a</p> <p>4 more manageable SUD-type level.</p> <p>5 So that's why all of a sudden we</p> <p>6 had to go find CRA reserves, PP&E reserves.</p> <p>7 And one of the, obviously, the items here is</p> <p>8 capitalized interest from a prior year, which</p> <p>9 is not fair game. That was used in 1995 to</p> <p>10 negate the need to make a reserve adjustment at</p> <p>11 that time. You don't get to use it twice.</p> <p>12 Q. Otherwise, you have the phenomenon</p> <p>13 of the reserve that keeps on giving?</p> <p>14 A. Yeah.</p> <p>15 MR. RYAN: Objection.</p> <p>16 A. Yeah. Why not go to '94, '92.</p> <p>17 Q. That's what you meant when you said</p> <p>18 a stretch earlier?</p> <p>19 A. Yes.</p> <p>20 Q. It's fair to say, sir, that --</p> <p>21 strike that.</p> <p>22 The problem you identify is one of</p> <p>23 if you use a reserve to offset a bad debt</p> <p>24 reserve shortfall in one fiscal year, or to get</p> <p>25 comfortable about a bad debt reserve shortfall</p>

50 (Pages 197 to 200)

Stephen Spargo

<p style="text-align: right;">201</p> <p>1 that you will or will not recognize, that's one 2 use. And then if you take the reserve into 3 income in a later year, believing that it's no 4 longer necessary, that's yet again a second 5 use? 6 A. Correct. 7 MR. RYAN: Objection. 8 A. Correct. 9 Q. And that would be double use and, 10 therefore, improper? 11 A. Right. 12 MR. RYAN: Objection. 13 A. There's no carry-over. 14 Q. Do you recall Coopers & Lybrand, or 15 anyone at Coopers & Lybrand, in these weekly 16 update meetings or at any other time indicating 17 that use of the capitalized interest reserve or 18 any of these other reserves listed on Mr. 19 Cancelmi's schedule was in any way improper? 20 A. I don't recall, no, sir. 21 Q. That would have been something you 22 would have recalled, right? 23 A. Probably. 24 Q. Do you recall discussing the 25 carry-over or prior year use with folks at</p>	<p style="text-align: right;">203</p> <p>1 A. Yes. 2 Q. Do you recall who else either 3 attended that meeting or -- start there. Do 4 you recall who else attended that meeting? 5 A. I don't. 6 Q. Do you recall who typically 7 attended those meetings? 8 A. It was usually Dan and Al and I, 9 Jack, Chuck Lisman. Invitations were always 10 extended to McConnell, Dienisio, and Morrison. 11 Q. Do you recall who from Coopers & 12 Lybrand attended the closing meeting in '96 or 13 any typical year? 14 A. I don't. I don't. It would be a 15 partner or the manager and the in-charge, at 16 minimum. 17 Q. And those, again, would have been 18 Mr. Buettner, Mr. Kirstein and Ms. Fraizer? 19 A. That's correct. 20 Q. What's the purpose of a closing 21 meeting? 22 A. Pencils down, final adjustments, 23 make sure everybody is on the same page, no 24 open items, all work papers or schedules have 25 been prepared.</p>
<p style="text-align: right;">202</p> <p>1 Coopers & Lybrand? 2 A. I don't actually recall it, but I 3 seem to recall laughing when it was suggested 4 that that's one of the items we could use in 5 '96. 6 Q. Do you recall being surprised that 7 there was no disagreement from Coopers & 8 Lybrand on that front? 9 A. I believe they suggested it. 10 Q. Who? 11 A. Coopers & Lybrand. 12 Q. And who at Coopers & Lybrand? 13 A. I don't know who specifically, 14 whether it was Bill or Mark or Amy. That's 15 another one of those gifts from above, just 16 kind of come down upon the masses. 17 Q. Do you specifically recall 18 attending the 1996 closing meeting, fiscal year 19 1996 audit closing meeting? 20 A. I don't specifically recall, no. 21 Q. It would have been your practice to 22 attend such a meeting? 23 A. Yes. 24 Q. Those are pretty important 25 meetings?</p>	<p style="text-align: right;">204</p> <p>1 Q. I would like to show you now what 2 has been marked as -- strike that. Let me 3 start this way. 4 Do you recall, as you sit here 5 today now, that at the fiscal year 1996 closing 6 meeting there was discussion with the Coopers & 7 Lybrand personnel and the AHERF personnel in 8 attendance that for fiscal year 1996 the A/R 9 reserve, or accounts receivable reserve, was at 10 least \$30 million under-accrued, and 11 discussions to the effect that that figure 12 would need to be taken in over a period of 13 years, approximately three, in the future? 14 MR. RYAN: Objection. 15 A. I don't recall the specifics. 16 Q. What do you recall, generally, 17 about that? 18 A. I do recall everyone acknowledging 19 a deficiency that needed to be rectified 20 quickly. 21 Q. An accounts receivable deficiency, 22 an accounts receivable reserve deficiency? 23 A. Correct. 24 Q. In a material or significant 25 number?</p>

51 (Pages 201 to 204)

Stephen Spargo

<p style="text-align: right;">205</p> <p>1 A. Correct.</p> <p>2 Q. I'm going to hand you now what has</p> <p>3 been marked as Exhibit 1063 in this case. It</p> <p>4 is a set of notes entitled RJC Notes with a</p> <p>5 Bates number that I think Mr. Ryan will either</p> <p>6 tell us, or at least not disagree with me</p> <p>7 indicates it was produced from the files of</p> <p>8 Coopers & Lybrand. I'm going to --</p> <p>9 MR. RYAN: From</p> <p>10 PriceWaterhouseCoopers files.</p> <p>11 Q. I'm sorry, PriceWaterhouseCoopers</p> <p>12 files. And I'm going to ask you now to turn to</p> <p>13 a Bates range page that is numbered CL147599.</p> <p>14 The Bates page numbers, Mr. Spargo, on the</p> <p>15 lower right-hand corner.</p> <p>16 A. Okay. Okay. Sorry.</p> <p>17 Q. I'm going to ask you to take a look</p> <p>18 at these notes. They are headed with a date</p> <p>19 10/14/98. Do you see that?</p> <p>20 A. I do.</p> <p>21 Q. They're handwritten. And they have</p> <p>22 the word "Al Adamczak" handwritten at the top</p> <p>23 of the page.</p> <p>24 A. Right.</p> <p>25 Q. I'm going to ask you to do your</p>	<p style="text-align: right;">207</p> <p>1 Indicated a decision was made at a</p> <p>2 closing meeting that '96 A/R reserve was</p> <p>3 30 million under-accrued -- or under-reserved,</p> <p>4 rather. 30 million under-reserved. And to</p> <p>5 take it in over three years, done at a closing</p> <p>6 meeting, all hands, including C & L.</p> <p>7 Do you see those words?</p> <p>8 A. I do.</p> <p>9 Q. Does that, having seen it and had</p> <p>10 it read to you now, refresh your recollection</p> <p>11 that at the '96 closing meeting with Coopers &</p> <p>12 Lybrand and AHERF personnel, there was a</p> <p>13 discussion of and a determination made that the</p> <p>14 '96 accounts receivable reserve as of 6/30/96</p> <p>15 was under-reserved by \$30 million and that it</p> <p>16 would be taken in over time?</p> <p>17 A. Doesn't do anything for my memory,</p> <p>18 no, I'm sorry.</p> <p>19 Q. Doesn't refresh your recollection?</p> <p>20 A. No. No.</p> <p>21 Q. More than you've already testified?</p> <p>22 A. Right. Correct, sir.</p> <p>23 Q. Then I think the next paragraph</p> <p>24 says, indicated '96 shortfall was thought to be</p> <p>25 30 million in '96. Do you see that?</p>
<p style="text-align: right;">206</p> <p>1 best to read these notes and tell me whether</p> <p>2 you've seen these documents or these notes?</p> <p>3 A. "Indicated he did not take</p> <p>4 responsibility" --</p> <p>5 Q. You don't need to read them out</p> <p>6 loud.</p> <p>7 A. Don't you want type while I read?</p> <p>8 I'll do it slow.</p> <p>9 Q. I guess I'm asking you to go ahead</p> <p>10 and familiarize yourself with the page and the</p> <p>11 document and then let me know if you think</p> <p>12 you've ever seen it before.</p> <p>13 A. (Witness reviewing document.)</p> <p>14 Hard to make out, but okay.</p> <p>15 Q. Do you think you've ever seen it</p> <p>16 before?</p> <p>17 A. No.</p> <p>18 Q. Hasn't been shown to you either in</p> <p>19 your work at AHERF or in any other testimony in</p> <p>20 any other proceeding?</p> <p>21 A. No, it has not.</p> <p>22 Q. I'm going to direct your attention</p> <p>23 primarily to the second and third paragraphs of</p> <p>24 the handwritten notes. I believe that the</p> <p>25 second paragraph reads this way:</p>	<p style="text-align: right;">208</p> <p>1 A. I do.</p> <p>2 Q. Does that -- either of those</p> <p>3 sentences help refresh your recollection about</p> <p>4 the quantity of the shortfall you identified</p> <p>5 had been discussed at the closing meeting?</p> <p>6 A. No, sir.</p> <p>7 Q. So your best recollection, as I</p> <p>8 understand it, is that there was a discussion</p> <p>9 at the closing meeting about a significant or</p> <p>10 material dollar amount of A/R reserve shortfall</p> <p>11 at year-end '96, but you don't remember this</p> <p>12 particular figure of 30 million being</p> <p>13 discussed?</p> <p>14 A. I do not.</p> <p>15 Q. But am I right in every other way?</p> <p>16 A. Yes, you are. Yes, you are.</p> <p>17 MR. JONES: Let's take a break</p> <p>18 here.</p> <p>19 VIDEO TECHNICIAN: Going off the</p> <p>20 record at 3:13.</p> <p>21 (Brief recess.)</p> <p>22 VIDEO TECHNICIAN: Going back on</p> <p>23 the record at 3:28.</p> <p>24 Q. Mr. Spargo, at the closing meeting</p> <p>25 we were just discussing, for the fiscal year</p>

52 (Pages 205 to 208)

Stephen Spargo

<p style="text-align: right;">209</p> <p>1 1996 audit, you do recall, or do you not, 2 discussions at the table among the auditors and 3 the AHERF personnel about the need to fix or 4 correct the accounts receivable shortfall that 5 had been determined over the next period of 6 years? I mean it had to be fixed; isn't that 7 right? 8 MR. RYAN: Objection. 9 A. I do recall ending the audit with 10 an acknowledgment that we had -- 11 Q. We had a problem to fix? 12 A. -- once and for all to put some 13 type of corrective measures in place. 14 Q. Do you recall ever attending any 15 meetings after the closing meeting with 16 Mr. McConnell or any of the auditors about any 17 post closing meeting adjustments with respect 18 to the bad debt reserve that needed to be made? 19 A. Yeah. I think we continued to 20 talk about the reserve for bad debts in David's 21 Friday meetings with his senior staff. 22 Q. Do you recall whether any post 23 closing meeting adjustment to the bad debt 24 reserve at the Delaware Valley Obligated Group 25 Hospitals or any other said hospitals was</p>	<p style="text-align: right;">211</p> <p>1 A. Oh, yeah. 2 Q. That was a continuing problem? 3 A. Yes. 4 Q. How long had that been a problem 5 for -- 6 A. Delaware Valley accounts receivable 7 in the aging? 8 Q. Yes. 9 A. At least two, three years. 10 Q. Do you recall that at about the 11 time of this memo the PATCOM accounts were no 12 longer being billed, or that is, PATCOM 13 accounts -- the PATCOM system was no longer 14 being used to bill accounts? 15 A. I don't recall specifically, but 16 that could well have occurred around this time. 17 Q. Do you recall if that ultimately 18 did occur? 19 A. Yes. 20 Q. And that this system was converted, 21 or the hospitals that had used the PATCOM 22 system were converted to the Invision system? 23 A. That's correct. I think the actual 24 conversion happened during 1996. 25 Q. I'm going to ask you to take a look</p>
<p style="text-align: right;">210</p> <p>1 ultimately made, as you sit here today? 2 A. I don't recall for certain, no. 3 - - - - - 4 (Thereupon, Deposition Exhibit 1683 5 was marked for purposes of 6 identification.) 7 - - - - - 8 Q. Mr. Spargo, I've handed you now 9 what we've marked as Exhibit 1683 in this case. 10 It's apparently been marked as a different 11 exhibit number in another matter. 12 It is a memo from Mr. Cancelmi to 13 you dated September 20, 1996; am I right? 14 A. Yes. 15 Q. And do you recall -- it's got a re 16 line or subject line of Delaware Valley 17 accounts receivable aging. 18 Do you recall receiving this memo 19 about that time period? 20 A. I don't recall receiving it, but 21 I'm sure I did. 22 Q. You do, however, recall that even 23 after the close of the audit year for the -- 24 for fiscal year 1996, needing to pay attention 25 to Delaware Valley accounts receivable aging?</p>	<p style="text-align: right;">212</p> <p>1 at Page 2 and 3 of the document. If you look 2 at the Elkins Park PATCOM system account 3 portion of the document, Page 2. 4 A. Yes, sir. 5 Q. Looking at those figures, the 6 difference between the 6/30/96 figures and the 7 8/31/96, does it appear to you that collections 8 are nominal? 9 A. Yes. 10 Q. And I would ask you to turn the 11 page, then, to Page 3 and look at the same 12 PATCOM account system accounts at St. Chris 13 Hospital and tell me whether your conclusion is 14 essentially the same? 15 A. Yes. Collections are minimal. 16 Q. I'm going to ask you to flip now to 17 the page which has Bates numbers 2333, ask you 18 if the handwriting on that page is yours, 2333? 19 A. Yes, I believe it is. 20 Q. Can you read the handwriting for 21 us? 22 A. You had to ask. 23 Q. I'm sorry. 24 A. You mean scan it or read it out 25 loud?</p>

53 (Pages 209 to 212)

Stephen Spargo

<p style="text-align: right;">213</p> <p>1 Q. If you could read it out loud, it 2 would be helpful. 3 A. Rats. 4 Q. Slowly. I apologize. 5 A. Recommend offsetting the 360-plus 6 with reserve, which will leave a detailed A/R 7 balance of 233 million and a reserve of 8 approximately 27 million. Utilizing the 17, I 9 assume, .5 year-end reserve in the Delaware 10 Valley and the 7.5 reserve for AGH. 11 Q. Can I stop you there. Do you know 12 what the 7.5 from AGH refers to? 13 A. I don't, offhand. I'm sure I'll be 14 reminded of it. 15 Q. You can go ahead for the balance of 16 the three or four lines there. 17 A. If accounts turned over to outside 18 party, any and all collections would serve to 19 increase the reserve. Could also gradually 20 increase reserve on a monthly basis at 1 to 21 2 million a month. 22 That last little thing, estimate 23 year-end 6/30/97, I'm not sure what that has to 24 do with anything. 25 Q. It is your handwriting. Do you</p>	<p style="text-align: right;">215</p> <p>1 your recollection otherwise that even in late 2 September of '96 the accounts receivable 3 problem in the Delaware Valley wasn't getting 4 better? 5 A. Correct. Correct. 6 Q. It was, indeed, something that was 7 still on your mind and how to handle it -- 8 A. Correct. 9 Q. -- was something you had to deal 10 with? 11 A. Correct. The acknowledgment of a 12 \$30 million shortfall and the parent agreement 13 to rectify it over time, although three years 14 is a long time, that was just a small step as 15 part of the solution. I was not personally 16 satisfied with that. 17 But I was reminded that it was more 18 of an acknowledge than we've ever made in the 19 past. This was no victory, nor was it 20 envisioned to be a solution. Nowhere do you 21 hear anybody talk about the operations, why 22 can't we build accounts, why do we have such a 23 problem in the business office. 24 Once again, we sort of circumvented 25 the issue. So this acknowledgment was no --</p>
<p style="text-align: right;">214</p> <p>1 remember writing this? 2 A. I don't. 3 Q. Do you remember what you were 4 trying to convey, generally, other than what 5 you just read to us? 6 A. It appears what I was trying to 7 convey, I guess, are two things. Number one, 8 let's fully reserve anything over a year old. 9 Let's get that crap off the books right now and 10 then deal with whatever reserve is appropriate 11 for the -- anything under a year old. 12 And then at the time I think they 13 were talking about turning over the PATCOM and 14 other old accounts to an outside party to 15 collect, even the ones greater than a year old. 16 And what I'm saying here is that's all well and 17 good, but whatever they collect we'll then 18 reinstate or put back into the reserve, if and 19 when they ever collect it. 20 As well as gradually increasing the 21 reserve 1 to \$2 million a month through, I 22 assume, just accounting adjustments. 23 Q. By taking bad debt expense charge? 24 A. Yeah. 25 Q. Fair to say that from this memo and</p>	<p style="text-align: right;">216</p> <p>1 was not met with elation by myself or 2 Mr. Cancelmi or anyone else, I don't think. 3 Q. And that acknowledgment was the 4 closing meeting acknowledgment we discussed 5 earlier? 6 A. The fact everybody had 7 acknowledged, now we have a \$30 million problem 8 we've got to fix. 9 Q. Either before or at the closing 10 meeting? 11 A. Right, any time. 12 Q. Is it fair to say now that you do 13 recall that there was a discussion at the 14 closing meeting, or at some other time during 15 the audit process, that this \$30 million 16 problem needed to be addressed over time? 17 MR. RYAN: Objection. 18 Q. Meaning years going forward. 19 MR. RYAN: Objection. Misstates 20 prior testimony. 21 MR. JONES: I asked him if that's 22 his best recollection. 23 A. I recall an outcome of the audit 24 being an acknowledgment of a \$30 million 25 deficit, whether it was at a closing meeting or</p>

54 (Pages 213 to 216)

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
& RESEARCH FOUNDATION,
Plaintiff,

vs.

PRICewaterhouseCOOPERS,
LLP,

Defendant.

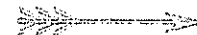
Civil Action
No. 00-684

Continued Videotaped Deposition of
STEPHEN H. SPARGO, called for examination under
the Applicable Rules of Federal Civil
Procedure, taken before me, Michele E. Eddy, a
Registered Professional Reporter and Notary
Public in and for the State of Ohio, pursuant
to notice and stipulations of counsel, at the
offices of Manion McDonough, 600 Grant Street,
Suite 1400, Pittsburgh, Pennsylvania, Ohio, on
Tuesday, the 4th day of November, 2003, at 9:00
a.m.

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VOLUME 3

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RENNILLO REPORTING SERVICES
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Stephen Spargo

Volume 2

<p style="text-align: right;">494</p> <p>1 was doubtful they would be achieved.</p> <p>2 Q. Did you have any sense that they</p> <p>3 may be arbitrarily imposed?</p> <p>4 A. Oh, yeah.</p> <p>5 Q. And why so?</p> <p>6 A. Well, they normally came out of the</p> <p>7 big office without any data going in first.</p> <p>8 Q. And the big office was</p> <p>9 Mr. Abdelhak's?</p> <p>10 A. Mr. Abdelhak's, yes, yes.</p> <p>11 Q. Did you find that the budgets from</p> <p>12 time to time were more optimistic than you</p> <p>13 would have made them, the budget requirements?</p> <p>14 A. I can't say that. There was always</p> <p>15 some glimmer of hope that there would have been</p> <p>16 sufficient pressures placed on the operating</p> <p>17 units to achieve some of those budgeted targets</p> <p>18 and expectations.</p> <p>19 Q. Did you or anyone else at finance</p> <p>20 though feel any amount of pressure to help</p> <p>21 fulfill what might have been optimistic goals</p> <p>22 from time to time, if you could, via accounting</p> <p>23 treatments?</p> <p>24 A. Yeah, I think we recognize that we</p> <p>25 wanted to try and hit our targets as best we</p>	<p style="text-align: right;">496</p> <p>1 A. Yes.</p> <p>2 Q. And it was a system designed to</p> <p>3 reward executives in the event of achieving</p> <p>4 certain benchmarks?</p> <p>5 A. Yes.</p> <p>6 Q. In a typical year, what did those</p> <p>7 bonuses run for people at your level of</p> <p>8 seniority and responsibility at the company?</p> <p>9 A. Ten to 30 percent.</p> <p>10 Q. Did you have a view about whether</p> <p>11 those were middling or high in the industry?</p> <p>12 A. I thought they were high.</p> <p>13 Q. Was achievement of those bonuses by</p> <p>14 management and people in the finance</p> <p>15 department, like yourself, in part contingent</p> <p>16 upon meeting certain financial goals?</p> <p>17 A. Yes.</p> <p>18 Q. And what were those goals?</p> <p>19 A. I don't recall, but I don't even</p> <p>20 know if budget was one, something to do with</p> <p>21 net equity, probably bond ratings, patient</p> <p>22 satisfaction, quality. There was like four or</p> <p>23 five indicators. Fairly standard in the</p> <p>24 industry.</p> <p>25 Q. When you say budget was one, what</p>
<p style="text-align: right;">495</p> <p>1 could.</p> <p>2 Q. Mr. Spargo, flipping back to</p> <p>3 another category of questions for a second, if</p> <p>4 C & L would have asked you, would you have told</p> <p>5 them that the payments to Ms. Calvert and</p> <p>6 Mr. Paroo were tort settlements?</p> <p>7 A. Sure I would have.</p> <p>8 MR. RYAN: Objection.</p> <p>9 A. Absolutely.</p> <p>10 Q. Or were for tort settlements?</p> <p>11 A. Yes, there's nothing to hide. The</p> <p>12 disturbing part about those settlements, given</p> <p>13 their timing, was that we were having cash, and</p> <p>14 senior management somehow felt the need to pay</p> <p>15 out \$5 million to two bone heads.</p> <p>16 You know, the accounting treatment,</p> <p>17 I hate to say this, I could have cared less</p> <p>18 about the accounting treatment. I had the</p> <p>19 accountants responsible to me. I also had Dave</p> <p>20 Deasy every day asking if he could pay Cardinal</p> <p>21 Health or Baxter or -- and we're paying those</p> <p>22 two people 5 million bucks.</p> <p>23 Q. You're aware that during your time</p> <p>24 at AHERF, performance bonuses were paid to</p> <p>25 management?</p>	<p style="text-align: right;">497</p> <p>1 do you mean by budget?</p> <p>2 A. Whether we achieved our budget</p> <p>3 targets or not.</p> <p>4 Q. In terms of net income?</p> <p>5 A. Net income, yeah, maybe revenues.</p> <p>6 Q. I'm sorry, you said something after</p> <p>7 net income?</p> <p>8 A. Maybe revenues, whatever. No. No.</p> <p>9 No. One of the big targets was cost per</p> <p>10 adjusted discharge, CPAD, how could I forget.</p> <p>11 Sherif would shoot me. That was a big deal</p> <p>12 about whether we had achieved cost per adjusted</p> <p>13 discharged targets.</p> <p>14 Q. What does that mean?</p> <p>15 A. That means you take your expenses</p> <p>16 and go through some crazy gyration to equate it</p> <p>17 to how much does it cost to treat a patient.</p> <p>18 East, west, I don't know that we did a</p> <p>19 consolidated, but probably in the regions where</p> <p>20 they had hospitals.</p> <p>21 - - - - -</p> <p>22 (Thereupon, Deposition Exhibit 1700</p> <p>23 was marked for purposes of</p> <p>24 identification.)</p> <p>25 - - - - -</p>

54 (Pages 494 to 497)

Stephen Spargo

Volume 2

<p style="text-align: right;">498</p> <p>1 Q. Mr. Spargo, we just handed you</p> <p>2 Exhibit 1700, which is a September 6, 1996 memo</p> <p>3 from Dwight Kasperbauer to Mr. Buettner; is</p> <p>4 that fair to say?</p> <p>5 A. Yes, sir.</p> <p>6 Q. With a copy to Al Adamczak?</p> <p>7 A. Yes, sir.</p> <p>8 Q. And in it Mr. Kasperbauer tells</p> <p>9 Mr. Buettner that he is providing certain</p> <p>10 information; is that right?</p> <p>11 A. Yes.</p> <p>12 Q. And part of that information is a</p> <p>13 description of the criteria with respect to the</p> <p>14 bonuses we've just been discussing; is that</p> <p>15 right?</p> <p>16 A. That's correct.</p> <p>17 Q. And does that refresh your</p> <p>18 recollection about the criteria involved?</p> <p>19 A. As soon as I go through them it</p> <p>20 does.</p> <p>21 Q. And the categories briefly are</p> <p>22 admissions, cost per adjusted discharge, which</p> <p>23 you just mentioned?</p> <p>24 A. Correct.</p> <p>25 Q. Net income?</p>	<p style="text-align: right;">500</p> <p>1 A. Not too much. No, because I</p> <p>2 purposely dealt with Dwight.</p> <p>3 Q. And who was Mr. Kasperbauer, by</p> <p>4 title?</p> <p>5 A. He was the executive vice president</p> <p>6 and chief human resource officer.</p> <p>7 Q. Do you recall that any AHERF</p> <p>8 executives received bonuses for acquisitions?</p> <p>9 A. Yes.</p> <p>10 Q. Who were they and do you recall?</p> <p>11 A. Yes. Mr. Abdelhak, Mr. McConnell,</p> <p>12 Ms. Wynstra, of course, Dr. Kaye, Mr. Dienisio.</p> <p>13 I don't know if Mr. Sanso. Mr. Sanso may have</p> <p>14 as well.</p> <p>15 Q. It was based on hospital</p> <p>16 acquisitions?</p> <p>17 A. I believe so, yes.</p> <p>18 Q. Were there any bonuses paid on</p> <p>19 physician practice acquisitions?</p> <p>20 A. I think there may have been. Oh,</p> <p>21 yes, there was. Yeah.</p> <p>22 Q. To whom?</p> <p>23 A. Whoever the guy was that cavorted</p> <p>24 around with Carol.</p> <p>25 A. Harvey --</p>
<p style="text-align: right;">499</p> <p>1 A. Correct.</p> <p>2 Q. Net equity?</p> <p>3 A. Correct.</p> <p>4 Q. Uncompensated care?</p> <p>5 A. Correct.</p> <p>6 Q. And the level of external funds</p> <p>7 secured for research?</p> <p>8 A. Yes.</p> <p>9 Q. In what connection was Mr.</p> <p>10 Kasperbauer providing this information to</p> <p>11 Mr. Buettner?</p> <p>12 A. He was asking Mr. Buettner to</p> <p>13 review and verify the accuracy of the</p> <p>14 underlying calculations.</p> <p>15 Q. This was a certain agreed upon</p> <p>16 procedure project?</p> <p>17 A. Yes. Coopers would do that every</p> <p>18 year. In fact, the first year I really got to</p> <p>19 know Dan Cancelmi, he was the senior manager on</p> <p>20 the AHERF job and he was tasked with doing</p> <p>21 exactly what Mr. Buettner is doing here in this</p> <p>22 calculation.</p> <p>23 Q. Do you recall ever being -- ever</p> <p>24 having discussions with Coopers on these</p> <p>25 engagements, on compensation?</p>	<p style="text-align: right;">501</p> <p>1 Q. Leavy?</p> <p>2 A. Harvey Leavy, yeah. And probably</p> <p>3 Carol as well.</p> <p>4 Q. How were you made aware of these</p> <p>5 bonuses?</p> <p>6 A. Mr. Deasy.</p> <p>7 Q. Told you?</p> <p>8 A. Yes.</p> <p>9 Q. Do you recall bonuses being paid</p> <p>10 for anything else?</p> <p>11 A. Yes.</p> <p>12 Q. What?</p> <p>13 A. Securing additional debt.</p> <p>14 Q. Who received those bonuses?</p> <p>15 A. Mr. Martin, Ms. Gilbert. I don't</p> <p>16 know who else.</p> <p>17 Q. What were you -- do you have any</p> <p>18 opinions on the appropriateness of the bonuses</p> <p>19 we just discussed?</p> <p>20 A. Yeah.</p> <p>21 MR. RYAN: Objection.</p> <p>22 Q. What about them?</p> <p>23 A. There was no need for it. You</p> <p>24 don't give people bonuses to do their job. I</p> <p>25 think the acquisitions used to piss me off, but</p>

55 (Pages 498 to 501)

Stephen Spargo

Volume 2

<p style="text-align: right;">502</p> <p>1 the debt really, like come on, but --</p> <p>2 Q. Was it your view that these were</p> <p>3 unnecessary and excessive?</p> <p>4 MR. RYAN: Objection.</p> <p>5 A. Yes, it was, indeed.</p> <p>6 Q. Well, if I've overstated your</p> <p>7 opinion, tell me.</p> <p>8 A. No.</p> <p>9 Q. How would you characterize --</p> <p>10 A. No, this was very excessive.</p> <p>11 People should be fired, they shouldn't be</p> <p>12 getting bonuses.</p> <p>13 Q. Do you recall the Exuplex program?</p> <p>14 A. Yes, I do, as a matter of fact. It</p> <p>15 was a creditor.</p> <p>16 Q. What was it?</p> <p>17 A. It was a basically an executive</p> <p>18 perk package where we were allotted a certain</p> <p>19 amount of money, and I don't recall exactly how</p> <p>20 much, and with that money we could select</p> <p>21 different types of benefits of short-term</p> <p>22 disability, I think we had access to some</p> <p>23 executive life insurance, and then there would</p> <p>24 be a residual amount after we went benefit</p> <p>25 shopping that we would keep for two years and</p>	<p style="text-align: right;">504</p> <p>1 Mr. McConnell, Ms. Wynstra and Mr. Abdelhak?</p> <p>2 A. Yes.</p> <p>3 Q. And were there levels of</p> <p>4 individuals in the company beneath you who got</p> <p>5 these benefits and bonuses?</p> <p>6 A. Perhaps. Maybe down in the vice</p> <p>7 president level.</p> <p>8 Q. But certainly above you the</p> <p>9 benefits and bonuses that we've talked about</p> <p>10 today applied?</p> <p>11 A. Oh, yeah, yeah, definitely.</p> <p>12 MR. JONES: Let's break here so</p> <p>13 people can make their flights. We will</p> <p>14 obviously reconvene and maybe take a few</p> <p>15 minutes to talk about when. I will be, if not</p> <p>16 done, and I may just say I'm done, very, very</p> <p>17 close to done, on the order of a half hour to</p> <p>18 an hour, but no more. I appreciate everyone's</p> <p>19 stamina.</p> <p>20 VIDEO TECHNICIAN: Going off the</p> <p>21 record at 3:48.</p> <p>22</p> <p>23 (Deposition adjourned.)</p> <p>24 -----</p> <p>25</p>
<p style="text-align: right;">503</p> <p>1 then have ready access to.</p> <p>2 Q. What was the quantum, if you can,</p> <p>3 as a percentage of salary that you were</p> <p>4 committed as an allotment to do this shopping?</p> <p>5 A. 20 percent.</p> <p>6 Q. I think you testified earlier in</p> <p>7 other litigation it was as much as 33 percent?</p> <p>8 A. Thirty-three.</p> <p>9 Q. Is that your best recollection?</p> <p>10 A. Yes. Yes. Thirty-three. Yes.</p> <p>11 Q. Do you recall any other executive</p> <p>12 benefits?</p> <p>13 A. Yes. We got sort of like a car</p> <p>14 allowance thrown into our salary. And that was</p> <p>15 intended, number one, for cars, so you didn't</p> <p>16 have to submit the mileage to and from the</p> <p>17 airport and that crap. It was also intended to</p> <p>18 cover legal fees, financial advisors, tax</p> <p>19 preparation fees, those kind of things. That</p> <p>20 was like \$22,000 a year or something.</p> <p>21 Q. Do you recall that these benefits</p> <p>22 that we've just discussed over the last few</p> <p>23 minutes were benefits that were available to</p> <p>24 not only persons of your position in the</p> <p>25 company, but those above you like</p>	<p style="text-align: right;">505</p> <p>1 CERTIFICATE</p> <p>2 The State of Ohio,)</p> <p>3 SS:</p> <p>4 County of Cuyahoga.)</p> <p>5</p> <p>6 I, Jaci R. Traver, RPR, CRR and</p> <p>7 Notary Public, duly commissioned and qualified,</p> <p>8 do hereby certify that the within named</p> <p>9 witness, STEPHEN SPARGO, was by me first duly</p> <p>10 sworn to testify the truth, the whole truth and</p> <p>11 nothing but the truth in the cause aforesaid;</p> <p>12 that the testimony then given by the</p> <p>13 above-referenced witness was by me reduced to</p> <p>14 stenotypy in the presence of said witness;</p> <p>15 afterwards transcribed, and that the foregoing</p> <p>16 is a true and correct transcription of the</p> <p>17 testimony so given by the above-referenced</p> <p>18 witness.</p> <p>19 I do further certify that this</p> <p>20 deposition was taken at the time and place in</p> <p>21 the foregoing caption specified and was</p> <p>22 completed without adjournment.</p> <p>23</p> <p>24</p> <p>25</p>

56 (Pages 502 to 505)

Stephen Spargo

Volume 3

<p style="text-align: right;">674</p> <p>1 sheet right now and tell you if there's 2 reserves there on a CRA. 3 Q. Right. My point is, I guess, if 4 you look at a general ledger for Hahnemann 5 Hospital or MCP Hospital, there's no separate 6 general ledger account called excess CRA 7 reserves, right? 8 A. No. No. No, no. 9 Q. There might have been portions that 10 you thought were excess built into the 11 individual general ledger accounts for a 12 particular fiscal year and a particular payer, 13 but somebody just looking at a general ledger 14 print-out wouldn't be able to tell one way or 15 another whether there were excess CRA reserves 16 or not? 17 MR. JONES: Objection. Asked and 18 answered. 19 A. Exactly. Yes. 20 MR. JONES: Object to form, too. 21 A. One of the reasons for that, so you 22 know, as ludicrous as it sounds, the Federal 23 Government and the Office of Inspector General 24 has alleged in some cases that if you have a 25 liability on your books that suggests you owe</p>	<p style="text-align: right;">676</p> <p>1 Hammond is Hammond Hospital. There's -- they 2 would have had access to this. 3 Q. Do you know one way or the other 4 whether the Coopers & Lybrand auditors knew 5 that AHERF kept X file schedules like this? 6 MR. JONES: Object as asked and 7 answered. 8 A. I'm sure they did. I'm sure they 9 did. 10 Q. You don't recall yourself ever 11 telling them that, do you? 12 A. That we have our own tally of 13 reserves? 14 Q. Right. 15 A. Yes. Yes. If there's an audit 16 team in the world that has never sat down with 17 their auditors and said what kind of reserves 18 do you have available, they're liars. There's 19 not a company in the world. They don't even 20 have to go after the Healthsouths and the real 21 obvious bad guys. Everybody. 22 I mean, that's a natural 23 conversation, what kind of reserves do you have 24 available, are you skinny or are you heavy, are 25 they light? What have you taken in income this</p>
<p style="text-align: right;">675</p> <p>1 Medicare money, you're at fault if you don't 2 give them the money. 3 Well, if the liability is a 4 reserve, that's ludicrous to suggest that we're 5 going to issue a check for 7 million dollars to 6 Medicare for the hell of it. 7 So you don't -- you don't have 8 blatant reserves sitting out there, otherwise 9 the Brain Trust, DIG's going to come in and 10 say, well, if you think you owe them money, why 11 didn't you pay them? We didn't really think we 12 owe them money. 13 So rather than getting into those 14 kind of conversations with unintelligible 15 types, you assign reserves to these respective 16 open fiscal years. 17 Now, I'm not talking about the 18 Department of Justice. 19 Q. Now, I take it that you don't 20 recall ever going through an X file schedule 21 like this with anyone from Coopers & Lybrand? 22 MR. JONES: Object to form. 23 A. I don't recall, but it certainly 24 would have been available to them. No new -- 25 there's no news on it. No secrets. The word</p>	<p style="text-align: right;">677</p> <p>1 year? What else is there? 2 How much tolerance is there in 3 certain accounts? Are the CRAs, you know, 4 loaded up or are they thin? 5 Absolutely. And my clients had 6 conversations with me when I was a Coopers & 7 Lybrand auditor. 8 So the Medical Center of Beaver 9 County, by god we sat down and talked about 10 reserves real early on because I wasn't going 11 to sit there and say I'm going to adjust 12 \$40,000 here and wait until the end and then 13 come back and say you can stick that where the 14 sun doesn't shine because we have reserves out 15 the whazoo. 16 So there's no -- there's no doubt. 17 And if they didn't ask and didn't 18 try to understand, then shame, shame, shame. I 19 mean, that's just the way it works. It worked 20 at Edgewater Steel and at Bounty Oil & Gas. 21 It's not just healthcare. There's no -- they 22 don't have a monopoly on reserves. 23 Q. Coopers & Lybrand would sometimes 24 during the audit reach their own judgments as 25 to whether they thought a reserve was needed or</p>

40 (Pages 674 to 677)

Stephen Spargo

Volume 3

<p style="text-align: right;">678</p> <p>1 not, right?</p> <p>2 A. Oh, yeah, sure. Sure.</p> <p>3 Q. One of the types of documents that</p> <p>4 was provided to Coopers when they came in to</p> <p>5 begin their audit was a print-out of a general</p> <p>6 ledger, right?</p> <p>7 A. Yes, sir. Yes. Yes.</p> <p>8 Q. So that Coopers & Lybrand could see</p> <p>9 the reserves that were on the books?</p> <p>10 A. Correct.</p> <p>11 Q. But Coopers & Lybrand wouldn't</p> <p>12 necessarily know which reserves you thought</p> <p>13 were excess or not unless you told them, right?</p> <p>14 MR. JONES: Object to form and</p> <p>15 foundation.</p> <p>16 A. Yeah, or we made them look. You</p> <p>17 know, you can find an inventory reserve when</p> <p>18 you find that the count is different than the</p> <p>19 general ledger balance.</p> <p>20 Or you can send Duane Girol up to</p> <p>21 squeeze it out of Scharf, how much reserve is</p> <p>22 there.</p> <p>23 Or you can sit down and say what</p> <p>24 are your reserve positions in your CRAs. I</p> <p>25 mean, just about every item on here they could</p>	<p style="text-align: right;">680</p> <p>1 Q. Somebody who was a point person or</p> <p>2 a point of contact with Coopers & Lybrand.</p> <p>3 A. Dan had his organizations. Al had</p> <p>4 his. Dan would give a lot of responsibility to</p> <p>5 Chuck Lisbon for some of those hospitals, as Al</p> <p>6 would give to Dan Cancelmi. The people at</p> <p>7 Coopers knew all of the people at Allegheny, so</p> <p>8 there was no controlled access, no controlled</p> <p>9 conversation. If the lowly staff B wanted to</p> <p>10 talk to Carolyn Karfaro about why the</p> <p>11 investment confirms don't tie in, they'd go</p> <p>12 right to her. Dan may not even know they went</p> <p>13 right into there.</p> <p>14 I sure as hell wouldn't know. It</p> <p>15 didn't really matter. I mean, they all knew</p> <p>16 each other. They used to work together, half</p> <p>17 of them.</p> <p>18 Q. How much interaction did you</p> <p>19 especially have with the auditors from Coopers</p> <p>20 & Lybrand during the audit?</p> <p>21 MR. JONES: Object as asked and</p> <p>22 answered.</p> <p>23 A. Minimal. Minimal. Friday mornings</p> <p>24 for the most part I tried to make those</p> <p>25 meetings.</p>
<p style="text-align: right;">679</p> <p>1 have found. The PP&E schedule tie-in.</p> <p>2 I mean, those are all natural audit</p> <p>3 steps so you can sit back and wait for them to</p> <p>4 say, why is there a difference? Well, it's a</p> <p>5 part of the reserves.</p> <p>6 Or you can just tell them upfront</p> <p>7 or show it as a reconciling item on the</p> <p>8 schedules.</p> <p>9 I mean, there are ways to find out</p> <p>10 without having to be verbally, you know,</p> <p>11 directed right to it.</p> <p>12 But in all fairness to them and in</p> <p>13 the interest of time and efficiency, there's no</p> <p>14 point --</p> <p>15 MR. JONES: No point in what?</p> <p>16 A. No point in not showing them or</p> <p>17 telling them, really.</p> <p>18 Q. During the 1996 audit, the last</p> <p>19 audit while you were at AHERF, was there</p> <p>20 somebody at AHERF who was, in effect, the lead</p> <p>21 person who directed interactions with the</p> <p>22 accountants for Cooper?</p> <p>23 A. Who directed the interactions?</p> <p>24 Q. Right.</p> <p>25 A. No.</p>	<p style="text-align: right;">681</p> <p>1 Q. Audit update meetings?</p> <p>2 A. Yes, sir. Yes, sir.</p> <p>3 Q. Did you personally provide Coopers</p> <p>4 & Lybrand with any documents or schedules, so</p> <p>5 forth, or is that something that you expected</p> <p>6 your staff to do?</p> <p>7 MR. JONES: Object to form.</p> <p>8 A. I can't -- certainly my staff. I</p> <p>9 can't think of a thing that would have had to</p> <p>10 come out of my office that would have</p> <p>11 substantiated a balance or an account.</p> <p>12 Q. You weren't collecting up papers --</p> <p>13 A. No.</p> <p>14 Q. -- to give to Coopers when they</p> <p>15 came in for their audit?</p> <p>16 A. No, not at all, no schedule</p> <p>17 requests would come to me. No. It's almost as</p> <p>18 bad as asking McConnell.</p> <p>19 Q. Other than these Friday update</p> <p>20 meetings, how much interaction did you have</p> <p>21 during the 1996 audit with Bill Buettner, the</p> <p>22 Coopers' partner?</p> <p>23 A. I think that would be about it,</p> <p>24 really. I don't think that he was on site a</p> <p>25 heck of a lot. He left a lot to Kerstein. I</p>

41 (Pages 678 to 681)

Stephen Spargo

Volume 3

<p style="text-align: right;">682</p> <p>1 don't know. I don't even -- I don't know if we 2 went to the Clark Bar at all in the evenings, 3 whether it be a Friday after work or even a 4 weekday. It wouldn't be unusual to go 5 downstairs sometimes. Whether we did with the 6 auditors that year, I don't recall. 7 I did stay away to maybe some 8 extent, I don't know if this really influenced 9 it, but my baby sitter was hired by Coopers & 10 Lybrand, so I stayed away because I didn't want 11 her thinking I was over there looking at her 12 over her shoulder and had anything to do with 13 her getting a job because I didn't -- it wasn't 14 fair to her. So -- and it's, you know, with 15 all the accounting that went on over there, 16 there's no need for Mr. Big to come strolling 17 around the cubicles, certainly who would make 18 people feel uncomfortable for any reason, which 19 they shouldn't, but -- 20 Q. So you didn't have any type of 21 process where you would meet weekly with Bill 22 Buettner? 23 A. No. No. 24 Q. How about Mark Kerstein and Amy 25 Frazier?</p>	<p style="text-align: right;">684</p> <p>1 Q. Do you recognize Exhibit 1351, Mr. 2 Spargo? 3 A. I recognize it as a SUD for 1996 4 I don't know that I've seen it before. 5 Q. When you and the auditors from 6 Coopers & Lybrand discussed the SUDs, did you 7 do that in a way where they went through their 8 SUD entries orally or did they give you a copy 9 of the SUD for you to look at while you went 10 through it with them? How did that work? 11 MR. JONES: Object to form and 12 foundation. Presumes there was such a 13 conversation. 14 A. I think for the most part it was 15 orally, at least for my purposes, and would be 16 not every item, probably the more material or 17 more significant items. So -- 18 Q. And just due to the objection that 19 was just lodged, is it, in fact, the case that 20 at the end of each audit there would be a 21 meeting where Coopers & Lybrand people would go 22 through at least the more significant SUD 23 entries? 24 A. Yes. But not at the end. As the 25 entries were identified. Purpose number two of</p>
<p style="text-align: right;">683</p> <p>1 A. No. I hope they would tell you 2 that I was accessible to them if they needed me 3 for anything or needed to talk about anything. 4 No. 5 Q. So that was mainly -- that is the 6 sort of interaction with Mark Kerstein, Amy 7 Frazier was in your understanding handled 8 mainly by Al and Dan? 9 A. Yes, sure. They were like equals. 10 They talked the same language. Al and Dan had 11 worked their way up through the ranks at the 12 same levels that Mark and Amy were at. So -- 13 Q. Is it the case that you don't know 14 for a fact whether Al Adamczak or Dan Cancelmi 15 provided Coopers & Lybrand with any of these X 16 file schedules? 17 MR. JONES: Object to form and 18 asked and answered. 19 A. Not for a fact, no, sir. 20 Q. Let me hand you what's been 21 previously marked as 1351. 22 MR. JONES: Object to the document 23 in that the exhibit sticker appears to be 24 upside down. 25 MR. RYAN: Objection noted.</p>	<p style="text-align: right;">685</p> <p>1 these meetings was to discuss the files. 2 Q. Got it. 3 Now, we were looking previously at 4 the 1995 SUD. Let me try to dig that out here. 5 Do you have Exhibit 1339 in that 6 stack there? 7 A. From this morning? 8 Q. Yes. 9 A. Yes, sir. 10 Q. Could you turn to the page with 11 Bates number 57337? 12 A. Yes, sir. 13 Q. This appears to be the Allegheny 14 General Hospital SUD? 15 A. Yes, it does. 16 Q. Do you see there an entry for 17 capitalized interest? 18 A. Yes, I do. 19 Q. In the amount of \$1,595,000? 20 A. Yes, yes, I do. 21 Q. Do you recall that Coopers & 22 Lybrand urged AHERF to capitalize interest? 23 A. No. No. I don't know about the 24 urge word. I know we used to let them come in 25 and calculate it for themselves because we knew</p>

42 (Pages 682 to 685)

Stephen Spargo

Volume 3

<p style="text-align: right;">746</p> <p>1 A. We did. We did.</p> <p>2 Q. To whom did you go with those</p> <p>3 doubts, concerns about Mr. Snow's performance?</p> <p>4 A. Dionisio, Morrison, McConnell, once</p> <p>5 to Sherif, Buettner, Kerstein, Jeff Walmer.</p> <p>6 Q. Can you tell me about the one time</p> <p>7 you recall going to Sherif Abdelhak?</p> <p>8 A. Yes. Yeah. It was when McConnell</p> <p>9 was away racing and something came to his</p> <p>10 attention to suggest that the level of bad</p> <p>11 debts at AGH had grown to large numbers without</p> <p>12 his knowledge.</p> <p>13 So he had asked for some</p> <p>14 explanation. And the explanation had to do</p> <p>15 primarily with shoddy practices within the</p> <p>16 business office. This really wasn't any</p> <p>17 revelation. It was only a revelation to him.</p> <p>18 Q. This was a question he asked of</p> <p>19 you?</p> <p>20 A. He asked a specific question</p> <p>21 because he had seen some financial data that</p> <p>22 prompted that question related specifically to</p> <p>23 A/R bad debts and write-offs. So I answered</p> <p>24 him honestly.</p> <p>25 Q. You told him you thought the reason</p>	<p style="text-align: right;">748</p> <p>1 A. Oh, yeah, yeah. Yeah. It was</p> <p>2 questionable whether I was going to be employed</p> <p>3 there much longer for awhile, but, you know, it</p> <p>4 was a mistake in judgment, so be it. That's</p> <p>5 how we learn. I think that's how he eventually</p> <p>6 came around to see it, so I said, you know,</p> <p>7 fine.</p> <p>8 Q. Do you know around when in time</p> <p>9 this conversation that you had with Sherif</p> <p>10 Abdelhak was?</p> <p>11 A. I don't. I don't.</p> <p>12 Q. Was that right before you left?</p> <p>13 A. No.</p> <p>14 Q. Or was it before that?</p> <p>15 A. My guess would be a couple years</p> <p>16 before I left. So I wasn't ready to pack it</p> <p>17 in. Had I been, it might have been a little</p> <p>18 bit of a different outcome, different</p> <p>19 conversations. But, no, I was nowhere close to</p> <p>20 thinking about going somewhere else to work.</p> <p>21 Q. Were you concerned about the affect</p> <p>22 that the problems in the patient collections</p> <p>23 office, that is the PFSG group at AHERF, might</p> <p>24 have on the organization as a whole?</p> <p>25 A. I knew -- I knew the affect it was</p>
<p style="text-align: right;">747</p> <p>1 was shoddy practices in the business office?</p> <p>2 A. Pretty much, that this is not an</p> <p>3 isolated event, this has been building over</p> <p>4 time and here -- here's the rest of the story.</p> <p>5 Q. What reaction did he have at that</p> <p>6 time?</p> <p>7 A. He was looking for somebody's head</p> <p>8 until David returned on Monday or Tuesday or</p> <p>9 whatever, calmed him down and god knows what he</p> <p>10 told him. That was the end of the interaction</p> <p>11 with Sherif on accounts receivable matters.</p> <p>12 This was never discussed</p> <p>13 So I don't know what he said,</p> <p>14 whether he discredited me or my analysis or</p> <p>15 whatever. And I rode on the plane with Sherif</p> <p>16 all the time. So if he wanted private time to</p> <p>17 say what is the real story, this is what David</p> <p>18 told me, nothing, zippo. I said okay, that's</p> <p>19 fine.</p> <p>20 Q. So you didn't ever have a follow-up</p> <p>21 conversation with Sherif Abdelhak?</p> <p>22 A. No. That was it. Once is plenty.</p> <p>23 Mr. McConnell made it clear not to have any</p> <p>24 further discussions like that with Sherif.</p> <p>25 Q. Did he tell you that expressly?</p>	<p style="text-align: right;">749</p> <p>1 having on it currently. Other than</p> <p>2 Mr. McConnell and myself, we were probably the</p> <p>3 only two people that really got to appreciate</p> <p>4 the difficulties from the financial statements</p> <p>5 and also having to do with the cash flow</p> <p>6 implications.</p> <p>7 No one else really wore hats that</p> <p>8 crossed both sides. Treasury was all cash.</p> <p>9 Dionisio was all A/R and AGH.</p> <p>10 So no one really got to appreciate</p> <p>11 struggling through the financial analyses with</p> <p>12 crappy information, Snowbird and company</p> <p>13 throwing up road blocks and making sure we</p> <p>14 don't get the information we need. And also</p> <p>15 having to go answer to Dave Deci every day</p> <p>16 about pay Cardinal Health and don't pay anybody</p> <p>17 else, sorry. David said if a vendor calls,</p> <p>18 tell them to call David's office. Yeah, right,</p> <p>19 like that phone's going to get answered.</p> <p>20 So, yeah, it's -- It was a problem</p> <p>21 on a daily basis.</p> <p>22 Q. Did you ever consider going</p> <p>23 directly to the Board of Trustees to let them</p> <p>24 know about these problems?</p> <p>25 A. No, I never did. No.</p>

58 (Pages 746 to 749)

Stephen Spargo

Volume 3

<p style="text-align: right;">750</p> <p>1 Q. Did you ever consider trying to 2 approach Sherif Abdelhak again despite what 3 David McConnell told you? 4 A. No. 5 Q. You were concerned that you would 6 be fired? 7 A. No. I was -- you know, I guess I 8 was convinced that we had to work through the 9 players that existed because changes weren't 10 going to be made and, you know, just keep 11 harping away, maybe with a little bit less vim 12 and vigor. 13 I didn't get a lot of help. Al and 14 Dan certainly saw it firsthand. It wasn't all 15 personalities. Snowbird treated his people 16 like crap and I had no respect for him because 17 of that. They were out of their league. 18 Sometimes you got to know when to fold and move 19 on. They weren't being well served. 20 Q. Just so we have a clear record, 21 Snowbird is Greg Snow? 22 A. Greg Snow. I'm sorry. 23 Q. Mr. Snow's predecessor, I believe 24 you mentioned the first day of your deposition, 25 was a gentleman named Roger Hoxindale?</p>	<p style="text-align: right;">752</p> <p>1 bills out the door. 2 It just wasn't reasonable to expect 3 the patient accounting could do what we were 4 about to do with payroll and accounts payable. 5 It's a different -- you pay people in Alaska 6 and they wouldn't know the damn difference. 7 Not so with the business offices. 8 Q. It was helpful to be more on the 9 ground? 10 A. I think. I think. You need to -- 11 you need to make sure you know what you're 12 moving and you have proper controls in place 13 before you just start dabbling with it. 14 Q. Am I understanding you right that 15 in hindsight you think the move to patient 16 billing back to Pittsburgh was a mistake? 17 A. Ill conceived and ill orchestrated, 18 yes, I do. 19 Q. Who conceived that consolidation of 20 patient billing? 21 A. I don't know. David and Sherif 22 would be my guess. 23 Q. Who orchestrated that? 24 A. David and Dionisio, and Roger was 25 sent out there initially, but, you know, his</p>
<p style="text-align: right;">751</p> <p>1 A. Yes, yes. 2 Q. Did you have an opinion as to how 3 he was doing in bill collection? 4 A. Well, I -- my opinion in retrospect 5 was that it was -- it got a little beyond him 6 as well. We were biting off more than we could 7 chew. It's one thing to march out there once a 8 month and say from now on you're only closing 9 the books under my tutelage, and that's only 10 going to last about ten minutes because I'm 11 going to bring Dan Cancelmi in a heartbeat, so 12 you do whatever you want for 29 days, but on 13 the 30th day when it's journal entry time, this 14 is the drummer that you're going to be dancing 15 to or marching to. 16 The business office, they do 17 substantive tasks every day. And you can't 18 just say, hey, you know, there's a new sheriff 19 in town. We're going to do it differently and, 20 guess what, we're moving you back to 21 Pittsburgh. That's rather disruptive. 22 You need a very, very stable 23 environment before you start making those 24 decisions. We had systems that were awry and 25 PATCOM crap and we couldn't even get Medicaid</p>	<p style="text-align: right;">753</p> <p>1 opportunity presented itself in Children's 2 Hospital, so Greg Snow was charged with that 3 task. 4 Q. When you had responsibilities for 5 patient billing, that was only at AGH? 6 A. Only at AGH, yes. Yes. Okay, I 7 fibbed. No, I didn't. 8 Q. So you didn't have to deal with the 9 issues of all the different hospitals and all 10 the different systems halfway across the state? 11 A. No. No. Thank goodness. 12 Q. I take it that you felt that you 13 and your colleagues in general accounting had 14 difficulty in getting access to information 15 from Greg Snow and his people? 16 A. We did. 17 Q. What types of difficulties did you 18 encounter? 19 A. I guess schedules weren't made 20 available or, you know, there was always a 21 question of doing the allowance calculations at 22 the end of the month and verifying that the 23 percentages and ratios being used were correct. 24 I think you even alluded to earlier 25 that when it comes to collecting patient</p>

59 (Pages 750 to 753)

Stephen Spargo

Volume 3

<p style="text-align: right;">754</p> <p>1 accounts receivable you can always look back 2 and see what you really did collect to make an 3 estimate as to what you did collect. Well, you 4 can't. It's not that easy 5 Someone doesn't give you the 6 information about this was the gross amount 7 billed, this was the net that we wrote it down 8 to and here is what we already collected, plus 9 the patient co-pay – it is complicated, I'll 10 give them that 11 It's way beyond what I could do. 12 But there are experts out there to do it. But, 13 you know, we asked for analyses or, you know, 14 asked for information and they'd say no, we'll 15 do it, we'll get Russ Laing to do it. 16 Other people would be assigned 17 tasks and out comes garbage. It's like, well, 18 not only did we not accomplish what we wanted 19 to accomplish, but time was wasted waiting for 20 what we had no reason to believe was going to 21 be meaningful information anyway. So it was a 22 struggle. 23 Q. Who was Russ Laing? 24 A. One of Greg Snow's staff. I don't 25 know if he reported directly to Greg or two</p>	<p style="text-align: right;">756</p> <p>1 more so. Not – inability to get his hands 2 around the issue. I used to work with Russ at 3 Coopers & Lybrand. I don't want to speak 4 poorly of him, but he wasn't the right man for 5 that job either. I hope he didn't give 6 purposely misinformation to send us off too far 7 down a different path. 8 Q. I think you previously stated in 9 one of the various testimonial sessions you've 10 had that you felt that Mr. Laing was part of a 11 smoke screen. 12 A. Yes. 13 Q. Can you explain that? 14 A. Well, yeah, I think – 15 MR. JONES: Object to form. 16 A. -- Russ and I think at the time 17 they shared some documents with me that would 18 show some of the results of Russ's efforts that 19 tried to show that these numbers were right and 20 the problem wasn't this big. And it was a 21 bunch of mumbo jumbo that if you took the time 22 or wasted the time to get through the logic of 23 his analyses, you would eventually find the 24 Achilles' heel where, you know, assumption 25 number four is totally false, so that means</p>
<p style="text-align: right;">755</p> <p>1 steps removed. But he was somebody that came 2 over to AHERF from UPMC, kind of a new addition 3 charged with helping us get our hands around 4 business office issues. 5 Q. Did you and your colleagues in 6 general accounting specifically have 7 difficulties getting information from Mr. 8 Laing? 9 A. Yes. Oh, yeah. Or Robin. I think 10 that's what I usually heard is Robin, we would 11 send her down. 12 Q. Robin Schaffer? 13 A. Robin Schaffer, which is I guess 14 kind of in retrospect foolish. You go 15 downstairs and get it. She would come back 16 empty-handed. They'd send her on some wild 17 goose chase and she'd either tell Chuck or Dan 18 directly. 19 Q. Were there occasions where you felt 20 that Mr. Laing had, in fact, provided 21 misinformation? 22 MR. JONES: Object to form. 23 A. I don't know. I don't know 24 about – purposely misinformation or was it 25 analyses that reflected his ineptitude perhaps</p>	<p style="text-align: right;">757</p> <p>1 five through 94 have no merit and you just 2 wasted two hours of our time trying to figure 3 out what the hell you just did. 4 So, you know, sometimes it was 5 simple stuff, calculating days of revenue 6 receivables. Other things were, you know, 7 trying to get a handle on what was our current 8 A/R balance and what were the accounting 9 entries that needed to be made. So -- 10 Q. Do you have any knowledge about the 11 quantity or quality of the information that 12 Greg Snow and Russ Laing and others provided to 13 Coopers & Lybrand? 14 MR. JONES: Object to foundation. 15 A. No, I don't know that I ever heard 16 Coopers' staff complain or heard complaints 17 through my staff about that. It was a struggle 18 down there. And I think they, Jeff Walmer and 19 others, Brian I think was one of the guys who 20 was assigned to that, they appreciated how 21 difficult it was to get -- get schedules to tie 22 and things that foot and cross foot, two 23 schedules add up to the trial balance amount. 24 I mean, it was a -- it was a complex 25 environment.</p>

60 (Pages 754 to 757)

Stephen Spargo

Volume 3

<p style="text-align: right;">758</p> <p>1 Q. Given the experience that you had 2 dealing with Greg Snow, is it possible that 3 there was information in PFSG that would have 4 reflected poorly on how Greg Snow and his staff 5 were performing that they didn't give to 6 Coopers & Lybrand? 7 MR. JONES: Object to form and 8 foundation. 9 A. Well, is there a chance of that? 10 Yeah. 11 Is there a chance it reflected 12 poorly on information they were trying to give 13 Dan Cancelmi and his staff? Yeah. 14 But as a backdrop to all of this, 15 if nothing else, you had a very outspoken, very 16 opinionated me sitting there saying this is 17 wrong. This is -- this is crap going on down 18 there. Our reserves are for shit. We can't 19 get any good information. We need to fix this. 20 So if they suspected that the 21 information may not have footed and tied in, 22 their suspicions could have been confirmed by 23 just mine and other people's statements saying 24 this needs attention. We're asking you, get in 25 there, get your hands dirty.</p>	<p style="text-align: right;">760</p> <p>1 A. Oh, yeah. 2 Q. Derogatory words used to them? 3 A. You bet. 4 MR. JONES: Object to form. 5 Q. And they, therefore, left the 6 organization due to the treatment they were 7 getting from Greg Snow? 8 A. Yes, yes. 9 Q. Let me hand you what's previously 10 been marked as Exhibit 104. 11 This is a memo from you to Mr. Snow 12 dated July 15th, 1996. Right? 13 A. Yes. 14 Q. And I see that you are copying on 15 the bottom David McConnell and Joe Dionisio, 16 right? 17 A. Yes, sir. 18 Q. And were you purposefully doing 19 that so that those individuals would see the 20 written efforts you were making to get 21 information from Mr. Snow? 22 A. Yes. Yes. That would be my guess. 23 Well, and, likewise, it's a courtesy, David's 24 my boss, Joe's Greg Snow's boss. 25 Q. Do you see the first sentence of</p>
<p style="text-align: right;">759</p> <p>1 Q. Did you ever form any views as to 2 why it was that Greg Snow and his staff were 3 doing poorly collecting patient accounts? 4 MR. JONES: Object to form. 5 A. My own views is the task was too 6 big for him and his staff. You know, it's I 7 guess I'm a perfect example of you can be a 8 numbnut and surround yourself with good people 9 and do your job, or make it look like your 10 job's getting done. And you're only as good as 11 the people you surround yourself with. 12 It wasn't all him. He did not 13 necessarily have the right caliber of talent 14 around with him. But you also have to be an 15 effective leader. You can't treat people like 16 crap. You can't swear at them at meetings, 17 make derogatory comments while others are there 18 to witness it or you'll never have good people 19 around you. 20 So, he would never have the right 21 staff. And you have to attribute that to the 22 top, to the leader. It was too bad. 23 Q. You heard of occasions where people 24 in PFSG felt that they were being treated 25 poorly, sworn at?</p>	<p style="text-align: right;">761</p> <p>1 the memo reads, "In reviewing the various A/R 2 and net revenue adjustments that have been 3 reported in our June close, it occurred to me 4 that we may want to spend some extra time 5 analyzing our June 30th A/R balances in an 6 effort to identify all potential exposures 7 included therein"? 8 A. M-hm. 9 Q. Do you recall what the various A/R 10 and net revenue adjustments were that you were 11 referring to there? 12 A. I don't offhand. But I assume it's 13 contractual allowances, bad debt reserves, the 14 usual menu of revenue and A/R adjustments. 15 Q. Do you recall whether you ever 16 received from Greg Snow or his staff the type 17 of analysis that you were asking for here in 18 this memo? 19 A. No, I don't think I did, to be 20 honest with you. That's more from prior 21 testimony than anything else. 22 Q. The second sentence reads, 23 "Although I would not envision immediately 24 sharing such an analysis with our auditors, I 25 do believe they should be assessed in</p>

61 (Pages 758 to 761)

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
& RESEARCH FOUNDATION,
Plaintiff,

vs.
PRICewaterhouseCOOPERS,
LLP,
Defendant.

Civil Action
No. 00-684

Continued Videotaped Deposition of
STEPHEN H. SPARGO, called for examination under
the Applicable Rules of Federal Civil
Procedure, taken before me, Michele E. Eddy, a
Registered Professional Reporter and Notary
Public in and for the State of Ohio, pursuant
to notice and stipulations of counsel, at the
offices of Manion McDonough, 600 Grant Street,
Suite 1414, Pittsburgh, Pennsylvania, Ohio, on
Wednesday, the 5th day of November, 2003, at
10:00 a.m.

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VOLUME 4

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RENNILLO REPORTING SERVICES
A LEGALINK AFFILIATE

<p style="text-align: right;">806</p> <p>1 foundation.</p> <p>2 A. Yes. Yes.</p> <p>3 Q. So that, for instance, at Hahnemann</p> <p>4 University Hospital, if the contractual</p> <p>5 allowance on average for that 9 million dollars</p> <p>6 in accounts, if they really were accounts at</p> <p>7 gross, if the contractual allowance for those</p> <p>8 accounts were 33 percent or one-third, then the</p> <p>9 accounts should have been carried at 6 million</p> <p>10 rather than 9 million, the potential adjustment</p> <p>11 would be 3 million, right?</p> <p>12 MR. JONES: Object to form.</p> <p>13 A. Yes. Yeah.</p> <p>14 Q. Now, the potential adjustment we've</p> <p>15 been talking about so far is an adjustment to</p> <p>16 the accounts at gross balance on the balance</p> <p>17 sheet, right?</p> <p>18 A. Yes. I believe these are all on</p> <p>19 the balance sheet, hopefully, or in the A/R</p> <p>20 detail that added up to what was on the balance</p> <p>21 sheet. One never knew with patient accounting.</p> <p>22 Q. Now, when AHERF, while you were</p> <p>23 there, recognized that there were accounts at</p> <p>24 gross on the books and adjusted those balances</p> <p>25 to their net carrying basis, that resulted in</p>	<p style="text-align: right;">808</p> <p>1 foundation.</p> <p>2 A. That's kind of a run-on sentence,</p> <p>3 but, yeah, I think. Yeah, if I'm with you.</p> <p>4 Yeah.</p> <p>5 Q. And the question that I'm trying to</p> <p>6 get to is, am I right that to the extent that</p> <p>7 the accounts at gross problem remain constant</p> <p>8 in a given fiscal year, say, there would be no</p> <p>9 net affect upon the income statement in that</p> <p>10 year because there would be contractual</p> <p>11 adjustments taken in that year where the gross</p> <p>12 revenue had been recognized in the previous</p> <p>13 year but there would also be gross revenue</p> <p>14 taken in that year where the contractual</p> <p>15 adjustment wouldn't be taken until the</p> <p>16 following year?</p> <p>17 MR. JONES: Same objection.</p> <p>18 A. Yeah, conceivably, if the activity</p> <p>19 from year to year is level and that the</p> <p>20 accounts are identified on a semi timely basis,</p> <p>21 yes. Yes. No single year could be -- would be</p> <p>22 distorted by that. It might -- go ahead.</p> <p>23 MR. JONES: You can finish your</p> <p>24 answer.</p> <p>25 A. It might be helpful to know that</p>
<p style="text-align: right;">807</p> <p>1 what was known as an out-of-period adjustment,</p> <p>2 didn't it?</p> <p>3 MR. JONES: Object to form and</p> <p>4 foundation.</p> <p>5 A. Yeah, that -- yes, that was the</p> <p>6 term that was often used, yes.</p> <p>7 Q. All right. So -- and out-of-period</p> <p>8 adjustment meant that, say, in a given month</p> <p>9 there was a contractual adjustment posted,</p> <p>10 whereas the gross revenue amount had been</p> <p>11 recognized in a previous month?</p> <p>12 MR. JONES: Object to form.</p> <p>13 A. Yes.</p> <p>14 Q. Now, to the extent that the amount</p> <p>15 of accounts at gross at a particular hospital</p> <p>16 remained relatively constant over time, in any</p> <p>17 given month, not only would there be</p> <p>18 contractual adjustments taken where the gross</p> <p>19 revenue for that particular account had been</p> <p>20 recognized in an earlier month, but also in the</p> <p>21 month we're talking about there would be gross</p> <p>22 revenue recognized for some other account</p> <p>23 without the contractual adjustment being taken</p> <p>24 to offset it, right?</p> <p>25 MR. JONES: Object to form and</p>	<p style="text-align: right;">809</p> <p>1 this whole concept of out-of-period adjustments</p> <p>2 was another smoke screen thrown up by the PFS&G</p> <p>3 group as we were trying to identify unusual</p> <p>4 variances in net revenues, which we attributed</p> <p>5 to their lack-luster-crappy performance, they</p> <p>6 attributed to all this bunk.</p> <p>7 So the out-of-period adjustments</p> <p>8 were caused by a number of factors, one of</p> <p>9 which is these accounts at gross, which, to be</p> <p>10 honest with you, and excuse my french, I didn't</p> <p>11 give a crap about. I really -- there's</p> <p>12 probably accounts at gross all the time</p> <p>13 There's probably accounts sitting at a thousand</p> <p>14 dollars that technically we were going to be</p> <p>15 paid 5,000 and we should write up to its net</p> <p>16 realizable value.</p> <p>17 We latched onto these accounts at</p> <p>18 gross, and you'll see copies to Morrison and</p> <p>19 Snow and everybody else, to highlight once</p> <p>20 again that somebody downstairs didn't have a</p> <p>21 damn clue what they're doing, that we have</p> <p>22 \$300,000 from 1994 that they're saying is</p> <p>23 sitting at gross.</p> <p>24 I don't care what it's sitting at</p> <p>25 Who's the payer? Send them the damn bill and</p>

Stephen Spargo

Volume 4

<p style="text-align: right;">810</p> <p>1 get the cash in. I really don't give a rats</p> <p>2 you-know-what if you take the allowance now, in</p> <p>3 '95, in '94. You shouldn't have an account</p> <p>4 sitting there two years old that you don't even</p> <p>5 know what the net amount is.</p> <p>6 So my whole -- this was one more</p> <p>7 opportunity to say we got a bunch of bone-heads</p> <p>8 down here. I don't really care -- this account</p> <p>9 at gross crap I don't care about. This</p> <p>10 out-of-period adjustment or allowance, that</p> <p>11 happens all the time.</p> <p>12 But, you know, once again, we got</p> <p>13 distracted into putting little detailed</p> <p>14 analyses together that all of a sudden now say,</p> <p>15 oh, is this an exposure item? The exposure is</p> <p>16 they're not doing their job. If it's exposure</p> <p>17 here, it's much, much less than the fact that</p> <p>18 they're not doing their job and they're not</p> <p>19 collecting cash.</p> <p>20 Q. So you were concerned about the</p> <p>21 accounts gross issue for what it's</p> <p>22 operationally about patient billing?</p> <p>23 A. That's absolutely right.</p> <p>24 Q. But you didn't think it was a big</p> <p>25 problem from an accounting point?</p>	<p style="text-align: right;">812</p> <p>1 the balance of accounts at gross was worked</p> <p>2 down so that there were fewer accounts at gross</p> <p>3 at year-end than there had been at the</p> <p>4 beginning of the year, then that would tend to</p> <p>5 have a somewhat depressing affect upon income</p> <p>6 in that year, right?</p> <p>7 MR. JONES: Object to form and</p> <p>8 foundation.</p> <p>9 A. Yes.</p> <p>10 Q. Do you recall during your last year</p> <p>11 or two at AHERF whether the accounts at gross</p> <p>12 problem was remaining constant, increasing,</p> <p>13 decreasing?</p> <p>14 MR. JONES: Same objection.</p> <p>15 A. I don't recall that we ever</p> <p>16 wrestled with it over a multi-year period</p> <p>17 There were multi-year balances as this schedule</p> <p>18 demonstrates. But I honestly don't recall</p> <p>19 saying, oh, this sounds bad, but it's a hell of</p> <p>20 a lot better than last year. Or this is worse,</p> <p>21 we're on an upward trend. I really -- this was</p> <p>22 a temporary smoke screen, as I mentioned, that</p> <p>23 we were trying to work with and around. So I</p> <p>24 don't recall, sir.</p> <p>25 Q. Let me hand you another exhibit</p>
<p style="text-align: right;">811</p> <p>1 A. I didn't. I didn't. Because, to</p> <p>2 be honest with you, if it's sitting there gross</p> <p>3 since 1994, we don't really know who the payer</p> <p>4 is. There's a good chance if it's Medicaid,</p> <p>5 even though we might have it in some other</p> <p>6 class, we're not going to get zip for it.</p> <p>7 Maybe it's all patient liability</p> <p>8 we're going to get a hundred percent for. I'm</p> <p>9 not -- that didn't trouble me. You know, it</p> <p>10 was another distraction that we tried, number</p> <p>11 one, to work around and, number two, to use</p> <p>12 against them, say, okay, you know, you want to</p> <p>13 play this out-of-period adjustment game, we'll</p> <p>14 play it. But, you know, all for not again,</p> <p>15 so --</p> <p>16 Q. Let me just ask you another -- a</p> <p>17 question or two about one that I was asking</p> <p>18 about.</p> <p>19 We discussed that to the extent</p> <p>20 that accounts at gross remained constant in a</p> <p>21 given year should have no net affect on the</p> <p>22 income statement, right?</p> <p>23 MR. JONES: Object to form.</p> <p>24 A. That's correct.</p> <p>25 Q. To the extent that in a given year</p>	<p style="text-align: right;">813</p> <p>1 that I believe you were shown at the previous</p> <p>2 session of your deposition as well. It's</p> <p>3 Exhibit 122.</p> <p>4 A. Thank you.</p> <p>5 Q. Now, this is Mr. Cancelmi's</p> <p>6 handwritten schedule identifying a year-end A/R</p> <p>7 reserve adjustment in the amount of 17 and a</p> <p>8 half million dollars. Is that right?</p> <p>9 A. Yes, sir.</p> <p>10 Q. And you recall that at the end of</p> <p>11 the Coopers & Lybrand fiscal year 1996 audit,</p> <p>12 there was an adjustment made to bad debt in the</p> <p>13 Delaware Valley in the amount of 17 and a half</p> <p>14 million dollars, right?</p> <p>15 A. 1996?</p> <p>16 Q. Fiscal 1996.</p> <p>17 A. Did we talk about that yesterday?</p> <p>18 Q. I don't think so, no.</p> <p>19 A. No, then I don't, because I don't</p> <p>20 recall. But I'm sure you have something to</p> <p>21 help me.</p> <p>22 Q. All right. Let me hand you an</p> <p>23 exhibit marked in the previous session of your</p> <p>24 deposition, Exhibit 1683.</p> <p>25 A. Thank you.</p>

6 (Pages 810 to 813)

Stephen Spargo

Volume 4

<p style="text-align: right;">814</p> <p>1 Q. You see that Exhibit 1683 appears 2 to contain two versions back-to-back of 3 Mr. Cancelmi's September 20th, 1996 memo to you 4 on Delaware Valley accounts receivable aging 5 with attachments, the first copy beginning at 6 Bates page DC 2135 and the second copy 7 beginning at DC 2329. 8 A. I see that, yes. 9 Q. If we could focus on the second 10 copy of the memo contained in Exhibit 1683. 11 A. Must we? Okay. 12 Q. This is I believe your handwriting? 13 A. I believe -- 14 Q. That we see on this page? 15 A. Yes, it is. 16 Q. And then also at the end of the 17 memo before the attachments on page DC 2333? 18 A. Yes. 19 Q. Could you just read the first 20 paragraph of your handwriting there, please? 21 A. Yikes. I'll try. You can help me 22 if you'd like. 23 "Recommend offsetting the 360 plus 24 something reserve." 25 Q. With reserve?</p>	<p style="text-align: right;">816</p> <p>1 A. Yes, sir. 2 Q. And do you see down there toward 3 the bottom under the heading existing reserves 4 to be used to cover write-offs after a breakout 5 of bad debt reserves at the five Delaware 6 Valley hospitals totaling \$53,867,000, there's 7 a row called other reserves segregated for bad 8 debts at 6-30-96 in the amount of \$17,500,000. 9 A. Yes. 10 Q. Does looking at these exhibits, 11 1683 and 1450, help refresh your recollection 12 that there were 17 and a half million dollars 13 in reserves that were identified at the end of 14 the Coopers & Lybrand fiscal year 1996 audit 15 and set aside for bad debts in the Delaware 16 Valley? 17 MR. JONES: Object to form. 18 A. It appears that's -- it appears 19 that's what has happened. 20 Q. Exhibit 122 that we started off 21 this line of questioning with is a schedule 22 that lists one, two, three, four, five, six, 23 seven groups of reserves that total 17 and a 24 half million dollars in amount? 25 A. That's correct.</p>
<p style="text-align: right;">815</p> <p>1 A. What's that? 2 Q. With reserve, perhaps? 3 A. With -- yeah, with reserve, which 4 will leave -- bad English -- and a detailed A/R 5 balance of 203 million or 233 or -- and a 6 reserve of approximately 27 million, parens, 7 utilizing the 17.5 year-end reserve in the 8 Delaware Valley and the 7.5 reserve from AGH. 9 Q. Thank you. 10 A. You're welcome. 11 Q. So there's a reference here in your 12 handwritten notes to a 17.5 year-end reserve in 13 the Delaware Valley, right? 14 A. Yes. 15 Q. Let's add to that another document, 16 Exhibit 1450. This is a memo from Mr. Cancelmi 17 to you dated four days later, September 24th, 18 1996, right? 19 A. That's correct. 20 Q. And I think at the last session of 21 your deposition we looked at your handwritten 22 note on the first page to David McConnell? 23 A. Yes, I believe we did. 24 Q. If I could direct your attention, 25 please, to the second page.</p>	<p style="text-align: right;">817</p> <p>1 Q. Now, I think you've testified 2 previously that you remember there was a 3 discussion at the end of Coopers & Lybrand's 4 fiscal year 1996 audit that they believed that 5 the bad debt reserves in the Delaware Valley 6 needed to be enhanced, is that right? 7 MR. JONES: Object to form. 8 A. That's correct. 9 Q. And I know that, you know, over the 10 years as you've been deposed a number of times, 11 various people have asked you questions about 12 what the amount of that shortfall that was 13 identified for June 30th, 1996 may have been. 14 But is it correct that you do not 15 have a recollection as to what the amount of 16 that shortfall that Coopers & Lybrand 17 calculated was? 18 MR. JONES: Object to form in that 19 it misstates his prior testimony. 20 A. The question is do I have a 21 recollection of the shortfall that Coopers 22 calculated? 23 Q. Yes, sir. 24 A. No, I don't. 25 Q. Do you know, for instance, one way</p>

7 (Pages 814 to 817)

<p style="text-align: right;">818</p> <p>1 or the other whether Coopers & Lybrand believed</p> <p>2 that the amount of shortfall was in the 15 to</p> <p>3 20 million dollar range around this 17 and a</p> <p>4 half million dollar adjustment?</p> <p>5 MR. JONES: Same objection.</p> <p>6 A. They may have, if their calculators</p> <p>7 weren't working.</p> <p>8 Q. Mr. Cancelmi started sending you a</p> <p>9 series of memos starting on September 20th,</p> <p>10 1996 about the bad debt reserve shortfall,</p> <p>11 right?</p> <p>12 A. Yes, he did.</p> <p>13 Q. That was a shortfall that he was</p> <p>14 calculating after a proposed write-off of about</p> <p>15 80 million dollars in accounts in the Delaware</p> <p>16 Valley, right?</p> <p>17 A. That's correct.</p> <p>18 Q. Before Mr. Cancelmi started sending</p> <p>19 you this series of memos beginning about</p> <p>20 September 20th, 1996, had you performed any</p> <p>21 sort of calculation of what you believed the</p> <p>22 bad debt reserve shortfall at June 30th, 1996</p> <p>23 might be?</p> <p>24 A. I don't know that I would have, no.</p> <p>25 That would be uncharacteristic of me to do it.</p>	<p style="text-align: right;">820</p> <p>1 This wasn't to say 17 and a half</p> <p>2 was bad or, look, we're moving AGH's</p> <p>3 capitalized interest over. We were looking for</p> <p>4 a brand-new day. Because I knew he would be</p> <p>5 exposed someday, and I hadn't been successful</p> <p>6 at this point, so let's try this.</p> <p>7 Q. So the question that I guess I'm</p> <p>8 trying to ask is, did you have in mind before</p> <p>9 you started receiving this series of memos from</p> <p>10 Mr. Cancelmi beginning on September 20th that</p> <p>11 there was a particular amount of bad debt</p> <p>12 shortfall in the Delaware Valley?</p> <p>13 MR. JONES: Object as asked and</p> <p>14 answered and form.</p> <p>15 A. I don't recall having any amount in</p> <p>16 mind. My recollection of the circumstances is</p> <p>17 it wouldn't have mattered. It didn't matter to</p> <p>18 me if it was a million dollar shortfall or 101</p> <p>19 million dollar shortfall. We weren't bringing</p> <p>20 cash in the door and we needed that to be</p> <p>21 acknowledged.</p> <p>22 So the magnitude of the shortfall</p> <p>23 was irrelevant. Coopers was comfortable with</p> <p>24 the '96 audit. We got through that day. Let's</p> <p>25 move on to the next. So --</p>
<p style="text-align: right;">819</p> <p>1 Q. Had anybody else performed for you</p> <p>2 a calculation of a bad debt reserve shortfall</p> <p>3 at June 30th, 1996?</p> <p>4 MR. JONES: Object to form.</p> <p>5 A. Before these memos?</p> <p>6 Q. Yes, sir.</p> <p>7 A. I would imagine so. Yeah.</p> <p>8 Q. Do you remember anything about</p> <p>9 that? Do you remember who did that or what the</p> <p>10 amount was?</p> <p>11 A. My guess is it would be Dan and his</p> <p>12 staff or Al and his staff or AGH.</p> <p>13 I would not have waited for Dan's</p> <p>14 typed memo to have this reveal anything to me</p> <p>15 other than maybe this will be a starting point</p> <p>16 to get this mess cleaned up in fiscal '97.</p> <p>17 We lost in '96. We didn't get the</p> <p>18 attention we wanted. So we gave up and said,</p> <p>19 okay, let's -- it's a new year, it's a new day,</p> <p>20 let's try something new. How about writing off</p> <p>21 every account over 270 days old and all that</p> <p>22 PATCOM crap and past statute, let's go naked on</p> <p>23 our reserves and let's see if Mr. Snow likes</p> <p>24 standing in front of the mirror naked. That's</p> <p>25 what this was all about.</p>	<p style="text-align: right;">821</p> <p>1 Q. Before Coopers & Lybrand came in to</p> <p>2 do the fiscal year 1996 audit, you and your</p> <p>3 staff in the general accounting department at</p> <p>4 AHERF prepared a set of financial statements</p> <p>5 for fiscal year 1996, right?</p> <p>6 A. We probably would have. For June</p> <p>7 30th?</p> <p>8 Q. Yeah.</p> <p>9 A. I think that was our practice. We</p> <p>10 definitely closed the books and I assume we</p> <p>11 distributed preliminary draft statements in</p> <p>12 June, which most hospitals do, recognizing that</p> <p>13 the year-end close is a whole new ballgame.</p> <p>14 So we definitely send reports out</p> <p>15 to the presidents and their department, cost</p> <p>16 center managers, so they can look at variances</p> <p>17 and assess their activities within their</p> <p>18 departments.</p> <p>19 I can't recall if at Allegheny our</p> <p>20 practice was to do a full set of financials,</p> <p>21 but we could have.</p> <p>22 Q. In any event, you and your staff</p> <p>23 are the ones who determined the amount of bad</p> <p>24 debt allowance that was on the books at June</p> <p>25 30th, 1996 and that was provided to Coopers &</p>

Stephen Spargo

Volume 4

<p style="text-align: right;">822</p> <p>1 Lybrand for them to audit, right?</p> <p>2 A. I believe, since I don't think we</p> <p>3 historically adjusted the reserves for bad debt</p> <p>4 on a monthly recurring basis, that we closed</p> <p>5 the books in June like we did in other years</p> <p>6 with whatever balance was there with the</p> <p>7 complete understanding and expectation that our</p> <p>8 friends from Coopers & Lybrand would come in</p> <p>9 and assess the -- help us assess or we'd help</p> <p>10 them assess the adequacy of the reserves.</p> <p>11 I'd be surprised if at the June</p> <p>12 close you saw any adjustments to the reserve up</p> <p>13 or down other than the direct write-off method</p> <p>14 that Mr. Snow was utilizing.</p> <p>15 Q. We saw in the exhibit we looked at</p> <p>16 earlier today, Exhibit 117, that AHERF was</p> <p>17 preparing calculations of the bad debt reserve</p> <p>18 using a bad debt reserving formula for the</p> <p>19 Delaware Valley hospitals and providing that to</p> <p>20 Coopers & Lybrand to audit for the June 30th,</p> <p>21 1996 audit, right?</p> <p>22 MR. JONES: Object to form.</p> <p>23 Misstates testimony. Misstates the document.</p> <p>24 A. Mr. Ryan, was this document</p> <p>25 prepared by Coopers or by AHERF?</p>	<p style="text-align: right;">824</p> <p>1 debt reserve calculations for Hahnemann</p> <p>2 University for at least the purpose of</p> <p>3 demonstrating that the difference between using</p> <p>4 the bill date and the discharge date is</p> <p>5 immaterial.</p> <p>6 This schedule doesn't tell me that</p> <p>7 anyone said the reserves are adequate. It</p> <p>8 doesn't tell me that anyone said 50 percent</p> <p>9 write-off for the 181 category is appropriate.</p> <p>10 It just tells me that let's not</p> <p>11 split hairs over bill date versus discharge</p> <p>12 date because, quite frankly, Snow's staff can't</p> <p>13 do that.</p> <p>14 I get the sense you're about to</p> <p>15 educate me.</p> <p>16 Q. Let me hand you, Mr. Spargo, what's</p> <p>17 previously been marked as Exhibit 116.</p> <p>18 A. Thank you.</p> <p>19 I see it says PBC.</p> <p>20 Q. This exhibit also says PBC, doesn't</p> <p>21 it?</p> <p>22 A. It does.</p> <p>23 Q. Do you recognize this as a type of</p> <p>24 schedule known as a bad debt reserve</p> <p>25 roll-forward?</p>
<p style="text-align: right;">823</p> <p>1 Q. Are you familiar with the</p> <p>2 abbreviation used by auditors PBC to mean</p> <p>3 prepared by client?</p> <p>4 A. Oh, no. But, yes, I've heard that.</p> <p>5 Yes, I'm familiar with that.</p> <p>6 Q. Are you familiar with what the bad</p> <p>7 debt reserve spreadsheets that your staff</p> <p>8 prepared for the Delaware Valley hospitals at</p> <p>9 June 30th, 1996 looked like?</p> <p>10 A. I believe I am now. I think I'm</p> <p>11 looking at one.</p> <p>12 Q. So assuming that Exhibit 117 is a</p> <p>13 set of schedules prepared by the accounting</p> <p>14 department at AHERF, as prior witnesses have</p> <p>15 testified they are, you would agree, would you</p> <p>16 not, that the general accounting department at</p> <p>17 AHERF was calculating a bad debt allowance for</p> <p>18 the Delaware Valley hospitals at June 30th,</p> <p>19 1996 using a bad debt reserving formula, right?</p> <p>20 MR. JONES: Object to form and</p> <p>21 foundation.</p> <p>22 A. I would agree that the PBC initials</p> <p>23 suggest that someone on my staff or -- at</p> <p>24 AHERF -- could have been done by Snow's</p> <p>25 staff -- did a bad debt reserve -- did two bad</p>	<p style="text-align: right;">825</p> <p>1 A. I guess -- yeah, I guess that's</p> <p>2 what we could call this.</p> <p>3 MR. JONES: Object to foundation.</p> <p>4 Q. This first page is headed Center</p> <p>5 City, Formerly Hahnemann University Hospital,</p> <p>6 Inpatient Summary of Reserves for Bad Debt,</p> <p>7 right?</p> <p>8 A. It is.</p> <p>9 Q. You see there the adjusted ending</p> <p>10 balance in the amount of \$15,058,248, right?</p> <p>11 A. I do.</p> <p>12 Q. Do you see that amount ties to the</p> <p>13 formula bad debt reserve calculation based on</p> <p>14 the age by final bill date methodology in</p> <p>15 Exhibit 117?</p> <p>16 A. It certainly does.</p> <p>17 Q. Do you see there the year-to-date</p> <p>18 adjustment to calculation booked at year-end in</p> <p>19 the amount of \$3,082,598 to bring the bad debt</p> <p>20 reserve for inpatient accounts at Hahnemann</p> <p>21 Hospital up to the formula amount at June 30th,</p> <p>22 1996?</p> <p>23 A. Yes, I sure do.</p> <p>24 Wait, say that again.</p> <p>25 MR. RYAN: Could you read that</p>

9 (Pages 822 to 825)

Stephen Spargo

Volume 4

<p style="text-align: right;">826</p> <p>1 back, please?</p> <p>2 A. Oh, no -- no, that's the subtotal.</p> <p>3 That's not a year-end adjustment.</p> <p>4 That's the subtotal of all 12</p> <p>5 monthly entries, is it not? Because it happens</p> <p>6 to equal the total. That's taken July plus --</p> <p>7 Q. All right, thank you.</p> <p>8 A. Right?</p> <p>9 Q. So the \$3,082,598 figure is the</p> <p>10 total for the entire fiscal year in the column</p> <p>11 of provisions on the adjusted trial balance,</p> <p>12 right?</p> <p>13 A. I believe so.</p> <p>14 Q. So the year-to-date adjustment</p> <p>15 calculation is zero, right?</p> <p>16 A. Year-to-date adjustment</p> <p>17 calculation.</p> <p>18 That line shows zero, yes. I don't</p> <p>19 know what that really means, but yes.</p> <p>20 Q. At any event, at year-end, the</p> <p>21 ending balance in the general ledger account</p> <p>22 for inpatient bad debt reserves at Hahnemann</p> <p>23 University Hospital as shown in Exhibit 116</p> <p>24 ties to the amount as calculated by the bad</p> <p>25 debt reserving formula contained in Exhibit</p>	<p style="text-align: right;">828</p> <p>1 foundation.</p> <p>2 A. No, I don't recall those -- those</p> <p>3 exact words, no.</p> <p>4 Q. You had conversations, I gather,</p> <p>5 with Coopers & Lybrand where you told them that</p> <p>6 you had concerns about how the patient billing</p> <p>7 department was doing and you felt they weren't</p> <p>8 collecting cash well, right?</p> <p>9 A. I did have those, yes.</p> <p>10 Q. But you can't recall conversations</p> <p>11 where you said to anybody from Coopers &</p> <p>12 Lybrand I think the bad debt reserve is wrong,</p> <p>13 I think the financial statements are misstated</p> <p>14 or anything like that, right?</p> <p>15 MR. JONES: Object to form.</p> <p>16 A. I did not say it like that, no.</p> <p>17 Q. You can't recall saying it in any</p> <p>18 other way that would have conveyed that</p> <p>19 message, can you?</p> <p>20 MR. JONES: Object to form.</p> <p>21 A. Yeah. Our A/R includes junk. I</p> <p>22 don't know how you're going to get satisfied</p> <p>23 with it this year. But I know you do your own</p> <p>24 little testing. We have past statute accounts.</p> <p>25 We have PATCOM crap that we've inherited. We</p>
<p style="text-align: right;">827</p> <p>1 117, right?</p> <p>2 A. That is correct. You're right.</p> <p>3 Q. Does reviewing Exhibits 116 and 117</p> <p>4 refresh your recollection that, in fact, the</p> <p>5 general accounting department at AHERF did</p> <p>6 calculate and book a bad debt allowance at the</p> <p>7 Delaware Valley hospitals at year-end fiscal</p> <p>8 year 1996 based on bad debt formula reserving</p> <p>9 methodology?</p> <p>10 MR. JONES: Object to form and</p> <p>11 foundation.</p> <p>12 A. That certainly appears that's what</p> <p>13 has happened, yes.</p> <p>14 Q. And then provided those amounts to</p> <p>15 Coopers & Lybrand to audit, right?</p> <p>16 MR. JONES: Same objection.</p> <p>17 A. Yes, it appears so.</p> <p>18 Q. Do you recall ever telling Bill</p> <p>19 Buettner or anybody else at Coopers & Lybrand</p> <p>20 that you believed that the bad debt allowances</p> <p>21 at the Delaware Valley hospitals, that the</p> <p>22 general accounting department at AHERF had</p> <p>23 provided Coopers & Lybrand to audit, were</p> <p>24 understated?</p> <p>25 MR. JONES: Object to form and</p>	<p style="text-align: right;">829</p> <p>1 need help more than sending Norb in from</p> <p>2 Harrisonburg or wherever he came from. We've</p> <p>3 got some serious problems here.</p> <p>4 Q. Do you have any reason to believe</p> <p>5 that the 17 and a half million dollar</p> <p>6 adjustment made as a result of the Coopers &</p> <p>7 Lybrand fiscal year 1996 audit was not an</p> <p>8 adjustment sufficient to state the bad debt</p> <p>9 allowances at the Delaware Valley hospitals</p> <p>10 fairly at fiscal year-end?</p> <p>11 MR. JONES: Object to form.</p> <p>12 A. Do I believe it was not sufficient?</p> <p>13 Q. Do you have any reason to</p> <p>14 believe -- do you have any reason as you sit</p> <p>15 here today to believe that that adjustment was</p> <p>16 insufficient?</p> <p>17 MR. JONES: Same objection.</p> <p>18 A. Yes.</p> <p>19 Q. What reason is that?</p> <p>20 A. Dan Cancelmi's September 20th memo</p> <p>21 to me and the September 24th memo and my</p> <p>22 handwritten note to David McConnell.</p> <p>23 Q. Before you received Mr. Cancelmi's</p> <p>24 September 20th, 1996 memo, and perhaps</p> <p>25 conversations with Dan in the days leading up</p>

10 (Pages 826 to 829)

Stephen Spargo

Volume 4

<p style="text-align: right;">830</p> <p>1 to that memo, did you have any reason to</p> <p>2 believe that the bad debt reserve at the</p> <p>3 Delaware Valley hospitals with the 17 and a</p> <p>4 half million year-end adjustment was</p> <p>5 insufficient?</p> <p>6 MR. JONES: Same object as asked</p> <p>7 and answered.</p> <p>8 A. Yes.</p> <p>9 Q. What reason is that?</p> <p>10 A. None of this was a new problem. We</p> <p>11 knew we had issues in accounts receivable that</p> <p>12 predate September 20th.</p> <p>13 I don't want to keep harping on</p> <p>14 past statute and PATCOM and accounts at gross</p> <p>15 and different issues, but we knew they were</p> <p>16 there.</p> <p>17 How much? It was secondary to we</p> <p>18 weren't doing a good job at billing and</p> <p>19 collecting cash.</p> <p>20 So the 17 million or 17 and a half,</p> <p>21 or whatever adjustments were posed, were</p> <p>22 adequate for Mr. Buettner to get comfortable.</p> <p>23 If he could recharacterize the CRA reserve to a</p> <p>24 bad debt reserve to help ensure that the</p> <p>25 reserve was more reasonably stated, fine.</p>	<p style="text-align: right;">832</p> <p>1 Lybrand is shown as being copied, right?</p> <p>2 A. Correct.</p> <p>3 Q. Do you recall providing</p> <p>4 Mr. Buettner a copy of Mr. Cancelmi's September</p> <p>5 20th memo?</p> <p>6 A. No, I don't recall.</p> <p>7 Q. Do you recall providing a copy of</p> <p>8 that memo to anyone at Coopers & Lybrand?</p> <p>9 A. No.</p> <p>10 Q. Do you recall providing</p> <p>11 Mr. Buettner a copy of Mr. Cancelmi's September</p> <p>12 24th memo?</p> <p>13 A. No.</p> <p>14 Q. Do you recall providing that memo</p> <p>15 to anyone at Coopers & Lybrand?</p> <p>16 A. No.</p> <p>17 Q. I think we saw yesterday that the</p> <p>18 management representation letter that you and</p> <p>19 others in management at AHERF signed and</p> <p>20 returned to Coopers & Lybrand was dated</p> <p>21 September 20th, 1996, right?</p> <p>22 A. Correct.</p> <p>23 Q. When you signed that management</p> <p>24 representation letter and provided it to</p> <p>25 Coopers & Lybrand, did you tell Coopers &</p>
<p style="text-align: right;">831</p> <p>1 That's okay.</p> <p>2 My issue wasn't with the adequacy</p> <p>3 of the reserves other than the fact that</p> <p>4 that -- that might allow us to heighten the</p> <p>5 ineptitude of our PFS&G group because, as I</p> <p>6 said yesterday, I had the dubious distinction</p> <p>7 of dealing with Mr. Deci and cash. Cash is</p> <p>8 king. Today, too, in both of our lives and at</p> <p>9 work, so --</p> <p>10 Q. Now, Bill Buettner isn't shown as</p> <p>11 being copied on Mr. Cancelmi's September 20th,</p> <p>12 1996 memo marked as Exhibit 1683, right?</p> <p>13 A. I don't believe he is.</p> <p>14 Q. Nor is anyone else from Coopers &</p> <p>15 Lybrand shown as getting copies, right?</p> <p>16 A. I assume not. I can look at that</p> <p>17 page.</p> <p>18 No, sir, just Mr. Morrison, Snow</p> <p>19 and Robin Schaffer.</p> <p>20 Q. Who are all AHERF people?</p> <p>21 A. Correct.</p> <p>22 Q. The same is true of Mr.</p> <p>23 Mr. Cancelmi's memo dated September 24th, 1996</p> <p>24 marked as Exhibit 1450, again, neither Mr.</p> <p>25 Buettner nor anybody else from Coopers &</p>	<p style="text-align: right;">833</p> <p>1 Lybrand about this series of memos from</p> <p>2 Mr. Cancelmi?</p> <p>3 A. No, not that I recall.</p> <p>4 Q. Even though you felt in your mind</p> <p>5 that the series of memos from Dan Cancelmi cast</p> <p>6 doubt on the adequacy of the bad debt reserves</p> <p>7 at June 30th, 1996?</p> <p>8 A. Yes.</p> <p>9 MR. RYAN: Why don't we take a</p> <p>10 break.</p> <p>11 THE VIDEOGRAPHER: Going off the</p> <p>12 record at 11:22.</p> <p>13 (Recess had.)</p> <p>14 THE VIDEOGRAPHER: Going back on</p> <p>15 the record at 11:32.</p> <p>16 Q. Mr. Spargo, if you wouldn't mind</p> <p>17 keeping out Exhibit 122, which was the</p> <p>18 handwritten schedule, 17 and a half million</p> <p>19 dollars in adjustments.</p> <p>20 A. Okay.</p> <p>21 Q. And looking at that in conjunction</p> <p>22 with some pages from Exhibit 10.</p> <p>23 A. Okay.</p> <p>24 Q. If we could start with the page</p> <p>25 with the Bates number ending in 1363.</p>

11 (Pages 830 to 833)

TAB 201

Marc A. Panucci

Page 1

1
2 UNITED STATES DISTRICT COURT

3 WESTERN DISTRICT OF PENNSYLVANIA

4 - - - - -x

5 THE OFFICIAL COMMITTEE OF UNSECURED

CREDITORS OF ALLEGHENY HEALTH, EDUCATION

6 & RESEARCH FOUNDATION,

7 Plaintiff,

8 -against-

9 PRICEWATERHOUSECOOPERS, LLP,

10 Defendant.

11 - - - - -x

12 825 Eighth Avenue

New York, New York

13
14 November 18, 2003

15 9:07 a.m.

16 DEPOSITION of MARC A. PANUCCI, a
17 witness in the above-entitled action, held
18 at the above time and place, taken before
19 Barbara P. Goldsmith, a Shorthand Reporter
20 and Notary Public of the State of New
21 York, pursuant to Subpoena, the provisions
22 of the Federal Rules of Civil Procedure,
23 and stipulations between Counsel.
24
25

Marc A. Panucci

<p style="text-align: right;">Page 122</p> <p>1 of this audit step to identify and 2 document the client's approach for 3 adopting the new standard, receiving 4 information from someone at AHERF other 5 than Ms. Cafarro? 6 A. Are we talking specifically 7 about the Delaware Valley entities or are 8 we talking about all of AHERF? 9 Q. Well, at first I'd like to talk 10 about whether you received written 11 information from someone other than 12 Ms. Cafarro about the East, the Delaware 13 Valley enterprises, if you can recall 14 today. 15 A. I do recall Carolyn directing me 16 to other places for additional 17 information. 18 Q. Do you recall what those other 19 places were or by whom they were peopled? 20 A. I do not recall. 21 Q. Do you recall receiving anything 22 from any other places other than 23 Ms. Cafarro with respect to the Delaware 24 Valley endowments and investments? 25 A. Yes.</p>	<p style="text-align: right;">Page 124</p> <p>1 A. I remember a request to other 2 individuals and receiving something, yes. 3 Q. Do you recall what it was? 4 A. I do not recall what it was. 5 Q. Is it fair to say that to the 6 extent you thought information that you 7 received important in your analysis in 8 your work, you mention it in your work 9 papers? 10 MR. LUFT: Objection. 11 A. Again, I can't speak for what's 12 in the work papers back in '96. 13 Q. I'm not asking you to memorize 14 or to have memorized work papers and 15 regurgitate them for me. What I'm asking 16 is, was it your practice, in or about the 17 time of this audit, to record in the work 18 papers your receipt or your failure to 19 find important documentation? 20 A. In the work papers would provide 21 information of where we would receive 22 something and the support for our 23 conclusions. But being it's the company's 24 adoption, I don't know if all the 25 information -- you know, all the</p>
<p style="text-align: right;">Page 123</p> <p>1 Q. From whom? 2 A. I do not recall. 3 Q. What do you recall receiving? 4 A. I just remember there was 5 conversations going through our audit and, 6 you know, I said Carolyn, I don't -- I 7 don't see the support in the binder for 8 it. And she directed me to other places. 9 To who, I don't know. 10 Q. Do you recall speaking with 11 people in the treasury department of AHERF 12 in Pittsburgh? 13 A. I do not recall if it was in 14 treasury or not. 15 Q. Do you recall speaking with 16 people in the development department of 17 the eastern hospitals, or departments? 18 A. Again, I don't recall if it was 19 the specific development departments or 20 not. 21 Q. Do you recall receiving anything 22 in hard copy, electronic or other tangible 23 readable format from, anyone other than 24 Ms. Cafarro, regarding the eastern owned 25 endowments?</p>	<p style="text-align: right;">Page 125</p> <p>1 information we received from them would 2 not be included in the work papers. 3 Q. You don't know if it would? 4 A. I don't know if it would or not. 5 Q. If there was a lack of 6 documentation that made it impossible for 7 you, in your judgment, to accurately 8 determine the appropriateness of the 9 company's work with respect to the 10 adoption of these new FASBs, would you 11 have noted that in your work papers, that 12 you completed? 13 A. I don't remember any discussion 14 of a lack of documentation that was needed 15 from the company on the adoption of the 16 new standards. 17 Q. You don't recall that being a 18 fact; is that fair to say, that there was 19 a lack of documentation? You don't recall 20 that being a fact? 21 MR. LUFT: Objection. 22 A. What I remember is the company 23 adopted 116, 117, that they had enough 24 support to give their conclusion of the 25 classifications for 116, 117. And we were</p>

32 (Pages 122 to 125)

Marc A. Panucci

<p style="text-align: right;">Page 126</p> <p>1 able to do an independent review of that 2 support, but it was mentioned because 3 you're talking about old endowments that, 4 you know, the documentation might not be 5 complete, but there was enough information 6 contained within there to make that 7 assessment. 8 Q. To make your assessment? 9 A. No. To make the company's 10 assessment, and we did our independent 11 review of that assessment. 12 Q. Right. And you do not recall, 13 as you sit here today, putting in a work 14 paper that you did not have enough 15 information to make your own independent 16 assessment; is that right? 17 A. I don't recall anything saying 18 that, no. 19 Q. No. And you don't recall 20 concluding that; is that right? 21 A. Correct. 22 Q. Who was it, then, from whom you 23 received any of the same kinds of 24 documentation, what you called the 25 underlying work papers and support for the</p>	<p style="text-align: right;">Page 128</p> <p>1 recollection and I think you were telling 2 me it did not. 3 A. Correct. 4 Q. Do you recall receiving any 5 written information from anyone else 6 besides Mr. Al Zwirn/Zworn with respect to 7 the western enterprises or AHERF, the 8 parent? 9 A. There was -- I know Carolyn was 10 not primarily responsible, but I don't 11 know who my primary contact was as it 12 related to the western side or AHERF, the 13 parent. 14 Q. I will show you a work paper 15 shortly and will tell you now, just 16 because it will save me the time reaching 17 around and potentially bumping the court 18 reporter again, that a name appeared in 19 the work papers, that is, Jack Lydon. Me 20 having given voice to that name, does that 21 refresh your recollection that he might 22 have been your contact for other 23 documentation besides Mr. Zwirn? 24 A. I remember the name, Jack Lydon. 25 I don't recall if that was the specific</p>
<p style="text-align: right;">Page 127</p> <p>1 adoption of SFAS 116 and 117 for 2 enterprises other than the eastern 3 Delaware Valley enterprises, that is, the 4 western enterprises, or AHERF, the parent 5 enterprise? 6 A. I remember an individual by the 7 name of Al Zworn providing information. 8 Q. And I only correct this to the 9 extent it is a correction because I've 10 seen his name recently on a subpoena, but 11 I believe the gentleman that worked at 12 AHERF was named Al Zwirn, and maybe we're 13 saying the same word, but I think his name 14 is spelled Z-w-i-r-n. Does that sound 15 right to you? 16 A. That name sounds familiar. The 17 correction of the spelling I do not know. 18 Q. You were saying Z-w-o-i-n, at 19 least in your own mind and voice, correct? 20 A. Correct, and I thought that was 21 the spelling of that name. 22 Q. That's fine, and I want your 23 testimony, not mine. But by prompting you 24 that I have seen the name Z-w-i-r-n, I'm 25 curious if that refreshed your</p>	<p style="text-align: right;">Page 129</p> <p>1 audit area I was working with Jack on. 2 Q. What do you recall receiving 3 from either Mr. Zwirn or Mr. Lydon? 4 A. Similar information I received 5 from the Delaware Valley entities, but it 6 was -- the initial part of it was not as 7 one neat place binder as the Delaware 8 Valley's. But there was a, you know, a 9 schedule that the client prepared. It 10 shows here's what our classifications are 11 and then another set of binders that had 12 the supporting documentation for the 13 company's classification of those 14 endowments. 15 Q. Do you recall that the schedule 16 was in a binder or separately supplied? 17 A. Separately supplied. 18 Q. And the schedule was generally 19 in what kind of a format? 20 A. I remember it was an Excel 21 spreadsheet that had the classification. 22 Q. It wasn't parchment or slate, it 23 was an Excel spreadsheet? 24 A. Correct. 25 Q. And it was a multipage document</p>

33 (Pages 126 to 129)

Marc A. Panucci

<p style="text-align: right;">Page 130</p> <p>1 or a single page document?</p> <p>2 A. I do not recall.</p> <p>3 Q. Do you recall, then, that you</p> <p>4 received from Mr. Zwirn or Mr. Lydon --</p> <p>5 and I'm going to use both names unless you</p> <p>6 tell me you're certain it was Mr. Zwirn an</p> <p>7 not Mr. Lydon. Can you tell me that with</p> <p>8 certainty, that you received documentation</p> <p>9 from only one of them and not either of</p> <p>10 them?</p> <p>11 A. Mr. Zwirn was the one who</p> <p>12 provided the binder to have the supporting</p> <p>13 documentation for it.</p> <p>14 Q. And he may or may not have</p> <p>15 provided the schedule. Is that what you</p> <p>16 are intimating?</p> <p>17 A. He did not provide the schedule.</p> <p>18 I don't know if it was Mr. Lydon who</p> <p>19 provided the schedule or not, but it was</p> <p>20 somebody else.</p> <p>21 Q. That's helpful and I appreciate</p> <p>22 your offering that for me.</p> <p>23 The question now is, do you</p> <p>24 recall receiving from Mr. Zwirn, then, two</p> <p>25 binders, three binders, one binder, or do</p>	<p style="text-align: right;">Page 132</p> <p>1 this documentation from Mr. Zwirn on</p> <p>2 western enterprises and AHERF, the parent,</p> <p>3 at the same time period, at the outset of</p> <p>4 your work?</p> <p>5 A. For the AHERF parent, we did not</p> <p>6 receive any information until the year end</p> <p>7 work and it was after the Delaware Valley</p> <p>8 entity information was received. The</p> <p>9 reason was they were not ready to hand</p> <p>10 over the adoption for 116, 117 at the</p> <p>11 outset of our audit.</p> <p>12 Q. At the outset of?</p> <p>13 A. Our year end procedures.</p> <p>14 Q. Thank you. That helps me get,</p> <p>15 also in my mind, to the right time period.</p> <p>16 When you say AHERF, the parent,</p> <p>17 do you also include in that any other</p> <p>18 western enterprise like Allegheny General</p> <p>19 Hospital?</p> <p>20 A. Yes.</p> <p>21 Q. So any western or parent level</p> <p>22 endowment/investment support</p> <p>23 documentation, whether by way of schedule,</p> <p>24 three-ring binder, you got after the</p> <p>25 eastern support data?</p>
<p style="text-align: right;">Page 131</p> <p>1 you today really recall whether the</p> <p>2 support information was all in one binder</p> <p>3 or not?</p> <p>4 A. I do not recall if it was</p> <p>5 multiple binders.</p> <p>6 Q. It could have been one, it could</p> <p>7 have been more than one. Is that</p> <p>8 accurate?</p> <p>9 A. It was at least one.</p> <p>10 Q. But I'm also right, it could</p> <p>11 have been more than one?</p> <p>12 A. Correct.</p> <p>13 Q. Do you recall whether you</p> <p>14 received this information all in one</p> <p>15 installment or whether you got any</p> <p>16 information in hard copy over time as you</p> <p>17 sit here today?</p> <p>18 A. I can't recall.</p> <p>19 Q. When did you get the information</p> <p>20 from Mr. Zwirn? The reason I ask it is</p> <p>21 you mentioned that you got sort of at the</p> <p>22 outset of your work on endowments and</p> <p>23 investments, which you believe, I think,</p> <p>24 to be in the final audit phase as opposed</p> <p>25 to prelim from Ms. Cafarro. Did you get</p>	<p style="text-align: right;">Page 133</p> <p>1 A. Correct.</p> <p>2 Q. And not quite at the outset of</p> <p>3 your investment work as a part of your</p> <p>4 year end audit work, but later in time</p> <p>5 because the client was not ready yet to</p> <p>6 give you the information?</p> <p>7 A. Correct.</p> <p>8 Q. And why is it that you</p> <p>9 understood that the client was not ready</p> <p>10 yet to give you the information?</p> <p>11 A. My understanding, the company</p> <p>12 was still completing their analysis of the</p> <p>13 adoption of 116, 117 as it related to the</p> <p>14 western hospitals.</p> <p>15 Q. And from whom did you gain this</p> <p>16 understanding?</p> <p>17 A. I could not recall who that</p> <p>18 individual was.</p> <p>19 Q. Was it Mr. Zwirn?</p> <p>20 A. It was not Mr. Zwirn.</p> <p>21 Q. After that, do you have any idea</p> <p>22 who it was?</p> <p>23 A. I do not know.</p> <p>24 Q. What did you understand</p> <p>25 Mr. Zwirn's role at AHERF to be?</p>

34 (Pages 130 to 133)

Marc A. Panucci

<p style="text-align: right;">Page 134</p> <p>1 A. I do not know. 2 Q. You understood Mr. Lydon to be a 3 part of the finance department, however? 4 A. Yes. 5 Q. Meaning the accounting 6 department, in general terms? 7 A. Yes. 8 Q. The process that you've just 9 described for us is really the same one 10 for both FASBs 116 and 117. Is that fair 11 to say? The process of understanding and 12 learning the client's approach for 13 adoption. You don't, in your mind, have 14 two sets of data retrieval in mind is what 15 I'm asking? 16 A. No. And principally because 17 116 -- most of the information we talked 18 about was really the 116 adoption because 19 that deals with classifying the 20 investments. The 117 part really deals 21 with the financial statement presentation. 22 Q. So this is all part and parcel 23 of the same process? 24 A. Correct. 25 Q. And the classification process,</p>	<p style="text-align: right;">Page 136</p> <p>1 audit work? 2 A. My understanding back in the '96 3 audit or my understanding today? 4 Q. Well, if you have a recollection 5 of your understanding then, share it with 6 me. 7 A. I don't think I'd have a 8 recollection as of '96 of what that was. 9 But as of today, and it's not worked in 10 the investment area in sometime now, as 11 far as not for the profit, but it's based 12 upon you have to look at the donor. 13 Q. Let's stop for a second. And I 14 don't mean to interrupt, only that I think 15 it will be clearer this way. 16 As you sit here today, you don't 17 recall anything about what you understood 18 to be the distinction between the asset or 19 net asset classifications we just 20 discussed; is that right? 21 A. Yeah. I don't think -- back in 22 '96, I cannot recall, you know, what my 23 understanding of those classifications 24 would be just because we are talking about 25 '96.</p>
<p style="text-align: right;">Page 135</p> <p>1 as you understood it, from reading the 2 FASBs, the relevant literature, and 3 discussing the topic with Ms. Frazier, was 4 what; what was the client supposed to do 5 as a matter of this new classification 6 protocol set forth in FASB 116 or 117? 7 A. The company had to make a 8 determination based upon donor intent if 9 their investment should be classified as 10 unrestricted, temporarily restricted, or 11 permanently restricted. 12 Q. And those were net asset 13 categories? 14 A. I'm sorry. What do you mean? 15 Q. When displayed on actual 16 financial statements, those categories of 17 assets were on the net asset side of the 18 balance sheet? 19 A. They were on the asset side of 20 the balance sheet. They were investments. 21 Q. And describe for me your 22 understanding of the categories. What 23 qualified investment amounts or endowment 24 amounts for classification in each of the 25 categories when you were performing your</p>	<p style="text-align: right;">Page 137</p> <p>1 Q. No, and I don't mean to make 2 this more of a memory test than it is. I 3 only want to know if you can tell me one 4 way or the other whether you have any 5 independent recollection, of any kind, of 6 what you understood to be the distinction 7 between the categories or classifications 8 when you were doing the work in fiscal 9 year '96. If you've got some 10 understanding of it, I want you to share 11 it with me. 12 A. Okay, fair. That understanding 13 was certainly it was going to be based 14 upon donor intention. 15 Q. Right. 16 A. That you no longer could have a 17 board designated fund be considered 18 temporarily or permanently restricted, so. 19 Q. They would be considered 20 unrestricted? 21 A. It would be considered 22 unrestricted. 23 Q. Anything else? 24 A. So then you would look at the 25 donor's intention, and based upon the</p>

35 (Pages 134 to 137)

Marc A. Panucci

<p style="text-align: right;">Page 234</p> <p>1 twice.</p> <p>2 A. That's okay.</p> <p>3 Nothing, to my knowledge, would</p> <p>4 refresh my recollection.</p> <p>5 Q. There was no particularly</p> <p>6 strange piece of paper or anything else</p> <p>7 that stands out in your mind in that</p> <p>8 notebook that, if you saw it again today,</p> <p>9 you think would trigger a memory that, oh,</p> <p>10 yes, this is more than likely a copy of</p> <p>11 the notebook; is that right?</p> <p>12 A. The only thing I can remember or</p> <p>13 one of the things I can remember, that</p> <p>14 being some of the paper, and it was old.</p> <p>15 It was yellow and tainted and, you know,</p> <p>16 entailed at least partial endowment</p> <p>17 agreements.</p> <p>18 Q. Do you recall, as you sit here</p> <p>19 today, testifying in the SEC deposition</p> <p>20 with any more certainty than you've</p> <p>21 testified today about what you reviewed</p> <p>22 that was received from Mr. Zwirn by way of</p> <p>23 endowment documentation?</p> <p>24 A. Nothing that I can recall.</p> <p>25 Q. How long did you -- how much</p>	<p style="text-align: right;">Page 236</p> <p>1 less, more. No way of knowing.</p> <p>2 Q. Do you recall anyone else being</p> <p>3 involved in the review of the notebook</p> <p>4 that Mr. Zwirn gave you or the notebook</p> <p>5 that Ms. Cafarro gave you from C&L?</p> <p>6 A. Not that I can recall.</p> <p>7 Q. Do you recall providing access</p> <p>8 to anyone else at C&L with access to,</p> <p>9 rather, the notebook that Mr. Zwirn or</p> <p>10 Ms. Cafarro gave you?</p> <p>11 A. Not that I can recall.</p> <p>12 MR. JONES: I think I only have</p> <p>13 two of these. So I'm going to ask you</p> <p>14 to share it with the witness briefly.</p> <p>15 I'm not going to ask him very many</p> <p>16 questions about it and I'm going to</p> <p>17 ask the court reporter to mark it as</p> <p>18 our exhibit next in order.</p> <p>19 (SEC exhibit was marked Exhibit</p> <p>20 4111 for identification, as of this</p> <p>21 date.)</p> <p>22 Q. I apologize in advance,</p> <p>23 Mr. Panucci, for the heft of Exhibit 4111.</p> <p>24 It is another document marked in the SEC</p> <p>25 proceeding as Exhibit 134. Does anything</p>
<p style="text-align: right;">Page 235</p> <p>1 time do you recall spending looking at the</p> <p>2 endowment documents that you received from</p> <p>3 Mr. Zwirn, or can you estimate it today?</p> <p>4 A. I cannot estimate it today</p> <p>5 because I, mean, it was part of the</p> <p>6 endowment testing for all of the AHERF and</p> <p>7 subsidiaries. So it would be difficult to</p> <p>8 allocate what portion was to this entity</p> <p>9 compared to another entity.</p> <p>10 Q. So if I asked you to give me</p> <p>11 your best estimate, you could come up with</p> <p>12 no set of hours?</p> <p>13 A. No.</p> <p>14 Q. Was it more than an hour?</p> <p>15 A. To be honest, I could not answer</p> <p>16 you one way or the other.</p> <p>17 Q. It could be less than an hour?</p> <p>18 MR. LUFT: Objection. He told</p> <p>19 you he couldn't answer you one way or</p> <p>20 the other.</p> <p>21 MR. JONES: This is the last</p> <p>22 question in the series.</p> <p>23 Q. It could be less than an hour</p> <p>24 then?</p> <p>25 A. I would have no way of saying</p>	<p style="text-align: right;">Page 237</p> <p>1 from the outward appearance of this large</p> <p>2 document refresh your recollection that it</p> <p>3 was -- that it is, rather, a copy of the</p> <p>4 notebook that you reviewed?</p> <p>5 MR. JONES: I will note for the</p> <p>6 record that it has a torn label on the</p> <p>7 face of the notebook which reads,</p> <p>8 "Allegheny General Hospital</p> <p>9 endowments, trusts, agency and other</p> <p>10 accounts."</p> <p>11 A. Nothing that would refresh my</p> <p>12 recollection.</p> <p>13 Q. At a next break, we'll ask you</p> <p>14 to review it briefly and its contents. It</p> <p>15 has a table of contents as well, as you</p> <p>16 can see from the second page of the</p> <p>17 document, and does that refresh your</p> <p>18 recollection?</p> <p>19 A. No.</p> <p>20 Q. You can put that large one aside</p> <p>21 or ask Mr. Luft to handle it for you.</p> <p>22 I'm going to ask you to turn to</p> <p>23 a couple of Bates pages in Exhibit 4110,</p> <p>24 Mr. Panucci. The first one is ED 50, E-D</p> <p>25 as in ED 50. And it is a face page for --</p>

60 (Pages 234 to 237)

Marc A. Panucci

<p style="text-align: right;">Page 238</p> <p>1 that bears the title, rather, "Allegheny 2 General Hospital endowments and trusts 3 investment fund, John Marshall Lockhart 4 fund, Mellon trust number 500-O07 in 5 barely legible print. Is that right? 6 A. Yes. 7 Q. And it notes at the base of the 8 page that the type of restrictions on the 9 trust, at least by the author's account, 10 were "principal restricted and income 11 apparently unrestricted." Is that right, 12 by Xes, although it looks to me -- 13 A. There's a mark on the restricted 14 part for income that I don't know what 15 that is or what it means. 16 Q. And the clearer X is with 17 unrestricted; is that right? 18 A. Yes. As it relates to income, 19 yes. 20 Q. In any event, this document is 21 not a Coopers & Lybrand generated 22 document, to your knowledge; am I right? 23 A. That is correct. 24 Q. It appears to you to be a client 25 generated document?</p>	<p style="text-align: right;">Page 240</p> <p>1 A. That's what it appears to be. 2 Q. Do you recall reviewing copies 3 like this in the endowment document you 4 received or notebook you received from 5 Mr. Zwirn? 6 A. I remember microfiche pages 7 included in the binder. 8 Q. Microfiche copied like this? 9 A. Yes. 10 Q. Do you recall reviewing the John 11 Marshall Lockhart endowment documents that 12 started ED 53 and followed? 13 A. Do you know where it ends in 14 this document? 15 Q. I believe it ends with 16 amendments, certainly no later than ED 90. 17 A. I do not recall specifically 18 reviewing the Lockhart agreement that 19 we're specifically looking at. I know 20 there's more than one. 21 Q. Let me ask you to look at the 22 page Bates labeled ED 54. Do you see 23 under Article I the definition of "income 24 as rents, issues, interests, income, and 25 profits thereof, hereinafter called</p>
<p style="text-align: right;">Page 239</p> <p>1 A. Yes. 2 Q. And do you recall reviewing this 3 document during your '96 audit work? 4 A. I do not recall reviewing this 5 document. 6 Q. And you see that it reads, 7 "Special provisions: Income in the amount 8 of \$250 per month is paid to the sole 9 survivor of the 12 original annuitants," 10 and continues from there? 11 A. Yes. 12 Q. I'm going to ask you to look 13 further back into this set of documents 14 into the microfiche portion of the John 15 Marshall Lockhart endowment documents 16 which have 500, the number 500-O07 at the 17 top of the page. Are you with me? 18 A. Yes. 19 Q. And that's Bates page ED 53. 20 A. Yes. 21 Q. If you look at ED 53 -- in these 22 and the pages that follow for several are 23 black microfiche, hard copies of 24 microfiche that are black in background 25 with white print; am I right?</p>	<p style="text-align: right;">Page 241</p> <p>1 income"? 2 A. Can you give me a paragraph 3 reference, please? 4 Q. It's Article I, about halfway 5 through the first sentence. 6 A. I'm sorry. Yes. Yes. 7 Q. You recall reading that kind of 8 language or that language in the endowment 9 documents provided to you by Mr. Zwirn, as 10 you sit here today? 11 A. I do not recall. 12 Q. I'm going to ask you to skip to 13 page ED 62. And there I'm going to ask 14 you to look at article -- the top of the 15 page which is the end of the Article X 16 where it says, "In case of the sale of any 17 securities of the trust fund at a premium 18 or profit, such premium or profit shall 19 become a part of the corpus and not 20 income." 21 Do you see that? 22 A. Yes. 23 Q. Do you recall reading that 24 language or language to that effect in the 25 endowments provided to you by Mr. Zwirn or</p>

61 (Pages 238 to 241)

Marc A. Panucci

<p style="text-align: right;">Page 242</p> <p>1 anybody else at AHERF in the fiscal year 2 1996 audit? 3 A. I do not recall. 4 Q. As you read that language today 5 with the familiarity of the 6 classifications called for by the FASBs 7 116, 117 and 124 that we've been 8 discussing, do you recall making any 9 determination about the propriety of how 10 the sums set forth -- described in that 11 sentence should be characterized or 12 classified? 13 MR. LUFT: Objection. Are you 14 asking about what he was reading today 15 or asking back then? 16 MR. JONES: I asked him about 17 what he's reading today and if he had 18 any recall. 19 MR. LUFT: I'm still unclear. 20 Q. We just read a sentence. 21 A. Yes. 22 Q. About the event of the sale of 23 securities of the trust at a premium or a 24 profit, correct? 25 A. Yes.</p>	<p style="text-align: right;">Page 244</p> <p>1 looked at or are you referring to a 2 specific one? 3 MR. JONES: I'm speaking of any 4 endowment that he can recall. 5 A. I do not recall. 6 Q. Do you recall specifically for 7 the Lockhart trust we're reviewing now how 8 management classified sums that would be 9 derived from the sale of securities of the 10 fund at a premium or profit? 11 A. I do not recall. 12 Q. As you read the language today, 13 and if you were called upon to make the 14 determination about the propriety of the 15 classification of sums derived from the 16 sale of securities of the trust fund at a 17 premium or a profit and the rest of the 18 language that describes them here by 19 instructing that such premium and profit 20 shall become a part of the corpus and not 21 income, what classification would you 22 apply to those sums? 23 MR. LUFT: You're asking him to 24 make a determination today based on 25 this one sentence?</p>
<p style="text-align: right;">Page 243</p> <p>1 Q. Do you recall anything about how 2 you would have determined the propriety of 3 the classification of sums that were 4 reflected by the sale of securities of the 5 trust at a premium or a profit, at a 6 premium or profit during the 1996 audit 7 work? 8 A. I do not recall. 9 Q. You don't know how you passed on 10 their classification one way or the other? 11 A. I mean, we would have -- 12 management would have had their 13 classification and we would have done our 14 independent review. But, you know, I 15 don't recall any specific discussions 16 around this area or this sentence. 17 Q. Do you recall -- or language 18 like this? 19 A. Yes, correct. 20 Q. Do you recall what management's, 21 that is, AHERF's classification of sums 22 that were derived from the sale of trust 23 securities at a premium or a profit was? 24 MR. LUFT: Objection. Are you 25 talking in general all endowments he</p>	<p style="text-align: right;">Page 245</p> <p>1 MR. JONES: Yes, on this 2 sentence. 3 A. Based upon today, I think I 4 would still want more information to get 5 clarification of what is meant by this 6 sentence. You know, talking to engagement 7 teams, talking to the client, and the 8 review of 116, 117. 9 Q. What information would you need 10 from the client or the engagement team? 11 A. Well, I think I would want to 12 try and get some understanding because 13 these agreements were written well before 14 FAS 116 or 117 was written. I'm trying to 15 obtain some understanding of what their 16 determination was, what their 17 classification was. And you know, based 18 upon that, whether we could agree to that 19 or not based upon 116, 117. 20 Q. I understand. And if their 21 determination was either temporary or 22 unrestricted for these sums derived from 23 the sale of securities, would you agree 24 with it as you read it today? 25 MR. LUFT: Reading this</p>

62 (Pages 242 to 245)

Marc A. Panucci

<p style="text-align: right;">Page 246</p> <p>1 sentence?</p> <p>2 MR. JONES: Yes.</p> <p>3 MR. LUFT: And only this</p> <p>4 sentence?</p> <p>5 MR. JONES: I haven't asked him</p> <p>6 to read any other recently.</p> <p>7 A. In reading this sentence, and</p> <p>8 based upon today, I would say with the</p> <p>9 classification has to go with where the</p> <p>10 corpus is.</p> <p>11 Q. And if the corpus was</p> <p>12 permanently restricted, then the sale of</p> <p>13 the securities would be similarly</p> <p>14 permanently restricted, in your view?</p> <p>15 A. Based upon this limited</p> <p>16 information, yes.</p> <p>17 Q. I'm going to ask you to skip to</p> <p>18 ED 91. Do you recall reviewing this face</p> <p>19 page for the John Marshall Lockhart No. 1</p> <p>20 Mellon trust number 500-017?</p> <p>21 A. I do not recall.</p> <p>22 Q. I'm going to ask you to refer to</p> <p>23 Article IX, which is at page 101, ED 101.</p> <p>24 It has the same language at the end of the</p> <p>25 article. "In case of the sale of any</p>	<p style="text-align: right;">Page 248</p> <p>1 MR. LUFT: He says he doesn't</p> <p>2 recall the Lockhart trust.</p> <p>3 MR. JONES: I'm talking about</p> <p>4 the language.</p> <p>5 Q. Do you recall raising questions</p> <p>6 about language like this with respect to</p> <p>7 gains in the sale of securities with</p> <p>8 anyone at AHERF?</p> <p>9 A. Not that I can recall.</p> <p>10 Q. Do you recall raising questions</p> <p>11 about the language or language like it</p> <p>12 that we just discussed with anyone at</p> <p>13 PriceWaterhouseCoopers?</p> <p>14 A. Not that I can recall.</p> <p>15 Q. Do you recall discussing it with</p> <p>16 Ms. Frazier or language like this or this</p> <p>17 language?</p> <p>18 A. Again, not that I can recall.</p> <p>19 Q. If you had a difference of</p> <p>20 opinion with the client about the</p> <p>21 appropriateness of the classification that</p> <p>22 would apply to sums described by this</p> <p>23 language, would that disagreement or</p> <p>24 difference of opinion have been reflected</p> <p>25 in your work papers?</p>
<p style="text-align: right;">Page 247</p> <p>1 securities of the trust fund at a premium</p> <p>2 or profit, such premium or profit shall</p> <p>3 become a part of the corpus and not</p> <p>4 income."</p> <p>5 Do you see that?</p> <p>6 A. Yes.</p> <p>7 Q. And your conclusion about an</p> <p>8 appropriate classification in a FASB 116</p> <p>9 or 117, given this text and nothing else,</p> <p>10 as you sit here today, would be the same?</p> <p>11 A. As of today and given this text,</p> <p>12 yes, the classification would be the same</p> <p>13 as the corpus.</p> <p>14 Q. And do you recall coming to the</p> <p>15 conclusion on any of the Lockhart</p> <p>16 endowments that were listed in the prior</p> <p>17 schedules we looked at earlier today that</p> <p>18 AHERF's classifications were in any way in</p> <p>19 error?</p> <p>20 A. Not that I can recall.</p> <p>21 Q. Do you recall having questions</p> <p>22 about language like this with respect to</p> <p>23 gains on the sale of securities that you</p> <p>24 raised with anyone at AHERF?</p> <p>25 A. Not that I --</p>	<p style="text-align: right;">Page 249</p> <p>1 A. Well, it would go through a</p> <p>2 series of discussions beforehand.</p> <p>3 Q. But ultimately if Coopers &</p> <p>4 Lybrand as an enterprise had a difference</p> <p>5 of opinion, it would be reflected in the</p> <p>6 work papers somewhere?</p> <p>7 A. Yes.</p> <p>8 MR. LUFT: Objection.</p> <p>9 Q. And how would it be so</p> <p>10 reflected, in your experience?</p> <p>11 A. In my understanding, it could</p> <p>12 be -- it would be reflected in the work</p> <p>13 papers. Depending on the nature of the</p> <p>14 item, it could be recorded on our sub. It</p> <p>15 all depends.</p> <p>16 Q. But it would be somewhere in the</p> <p>17 work papers?</p> <p>18 A. Yes.</p> <p>19 Q. And as you sit here today, you</p> <p>20 don't recall yourself having a difference</p> <p>21 of opinion with respect to the way gains</p> <p>22 in the sale of securities were classified;</p> <p>23 is that right?</p> <p>24 A. Not that I can recall.</p> <p>25 Q. Do you recall having a</p>

63 (Pages 246 to 249)

Marc A. Panucci

<p style="text-align: right;">Page 250</p> <p>1 disagreement with the client or a 2 difference of opinion with the client in 3 the way that it had classified unrealized 4 gains over time? 5 A. Not that I can recall. 6 Q. Do you recall having a 7 disagreement with the client or difference 8 of opinion with the client with respect to 9 any of its classifications under FASB 116 10 and 117? 11 A. Well, as of today, I think we 12 reviewed one of those in the documents. 13 Q. We saw one note, you're right. 14 Save and except for that, do you recall 15 any other disagreements? 16 A. Not that I can recall. 17 Q. In the language that we just 18 reviewed regarding gains on the sale of 19 securities, do you see any time 20 restriction? 21 MR. LUFT: You just want him to 22 review the language, just that 23 sentence, not the whole? 24 MR. JONES: Yes. 25 A. Just that sentence?</p>	<p style="text-align: right;">Page 252</p> <p>1 classifications they made in compliance 2 with FASB 116 and 117 on their endowments 3 and investments in fiscal year '96 save 4 for the footnote we just discussed; is 5 that right? 6 A. Not that I can recall, no. No 7 final disagreements, no. 8 Q. You can't recall any today, 9 correct? 10 A. Right. 11 Q. And then my question next is, do 12 you recall having any concerns -- do you 13 recall any intermediary concerns or 14 disagreements with the client on their 15 classifications, as you sit here today? 16 A. Well, I mean, as part of the 17 audit process, there's the ongoing 18 dialogue of questions, issues, concerns, 19 as you go back and forth. But in a final 20 determination, final conclusion, based 21 upon our independent review, I do not 22 recall any disagreements with the 23 classifications. 24 Q. I understand. And my question 25 is, do you recall any of those discussions</p>
<p style="text-align: right;">Page 251</p> <p>1 Q. Yes. 2 A. I do not see any time 3 restrictions in that sentence. 4 Q. Do you see any restriction that 5 would be lifted with the occurrence of an 6 event? 7 A. Not in that sentence, no. 8 Q. Or the happening of a condition? 9 A. Not in that sentence, no. 10 Q. I think you told us that you do 11 not recall conversations with AHERF 12 personnel or PriceWaterhouseCoopers 13 personnel about the classifications or 14 your concerns about the classifications or 15 any concerns about the classifications on 16 endowments and investments that AHERF had 17 arrived at? Am I right? That's 18 consistent with your recollection? 19 A. Can you repeat that again? 20 Q. Yes, I can. That was a hard one 21 and I'm just trying to understand it. I 22 think where we are, so that we don't have 23 to backtrack, is that, as you sit here 24 today, you cannot recall any disagreements 25 with the client regarding the</p>	<p style="text-align: right;">Page 253</p> <p>1 or back and forth in which you were 2 voicing some concern about the propriety 3 of the classifications, as you sit here 4 today? 5 A. Not that I can specifically 6 recall, no. 7 Q. Do you recall anything in a 8 general way? 9 A. Not that I could recall. 10 Q. All right. And then my next 11 question was, do you recall having any 12 concerns yourself about missing 13 documentation for the endowments and 14 investments that you were asked to review? 15 MR. LUFT: Objection. 16 A. Can you repeat that one more 17 time? I'm sorry. 18 Q. Let me break it down. Do you 19 recall that in the binders that you were 20 given to review, AHERF investments and 21 endowments, whether by Ms. Cafarro or 22 Mr. Zwirn or anyone else, that there was 23 any missing documentation, in your view? 24 A. Well, the representation we got 25 from management was here's the information</p>

64 (Pages 250 to 253)

Marc A. Panucci

<p style="text-align: right;">Page 254</p> <p>1 that we have. It was -- it could be 2 partial or full agreements, but there was 3 enough information for us to determine, as 4 management, the classification of the 5 endowments. And when we did our 6 independent review, we did not take 7 exception that there was enough 8 information to determine those 9 classifications. 10 Q. So what you are telling me is 11 that there may have been some missing 12 documentation, but in your view, or in 13 C&L's view, it wasn't sufficient to cause 14 you to take exception with the 15 classifications of the client? 16 MR. LUFT: Objection. 17 A. Management made a determination 18 there was enough information to classify 19 the investments. And based upon our 20 independent review, there was nothing that 21 came to our attention that there needed to 22 be additional information to classify the 23 investments. 24 Q. All right. And then my 25 follow-up question is, did you,</p>	<p style="text-align: right;">Page 256</p> <p>1 Q. Do you recall going to any third 2 parties or requesting of any third parties 3 any additional documentation with respect 4 to any endowment or investment during your 5 fiscal year '96 audit work? 6 A. Do you mean -- can you repeat 7 that? 8 Q. Yes. Do you recall going to or 9 inquiring of any third party regarding an 10 effort to get your hands on additional 11 endowment or trust or investment 12 documentation that might have been missing 13 in the material that the client had given 14 you during your fiscal year '96 audit 15 work? 16 A. I do not recall specifically 17 trying to get third party information as 18 it related to documentation that was not 19 included in the binder. But there is 20 third party information you receive on the 21 investments, i.e., the trustee statements. 22 Q. You did some tying work where 23 you got written documentation to help you 24 with the tying? 25 A. Correct.</p>
<p style="text-align: right;">Page 255</p> <p>1 personally, ever have a concern about 2 missing documentation with respect to any 3 endowment or investment that you were 4 charged with reviewing? 5 MR. LUFT: Objection. 6 A. Not that I can recall. 7 Q. Do you recall taking any steps 8 to secure additional documentation or what 9 was believed to be missing documentation 10 with respect to any of the endowments or 11 investments you were charged with 12 reviewing or auditing? 13 A. Only in what we talked about 14 earlier today. If it was not included in 15 the binder management, you know, sent me 16 to other people within the organization to 17 obtain that information. 18 Q. Do you recall receiving any 19 documentation from anyone else, though, as 20 you sit here today? I know you might have 21 had discussions, but the question I have 22 is, do you recall receiving anything 23 tangible in hard copy or electronic format 24 form? 25 A. Not that I can recall.</p>	<p style="text-align: right;">Page 257</p> <p>1 Q. Among other things, perhaps? 2 A. Correct. 3 Q. But you don't recall trying to 4 find underlying endowment documentation or 5 investment vehicle documentation from 6 third parties; is that right? 7 A. As it relates to the 8 classification of the investments, no, I 9 don't recall. 10 Q. Do you recall trying to get that 11 underlying endowment or investment vehicle 12 documentation for any other purpose? 13 A. Again, just what we talked 14 about, the confirmation process and the 15 trustee statement process. 16 Q. Well, that is isn't an 17 underlying documentation, though. That's 18 a statement of account balances; am I 19 right? 20 A. Well, I would still define that 21 as underlying documentation for support of 22 the accounts. 23 Q. I hear you and what I meant to 24 mean by underlaying documentation and what 25 I meant to say is the fundamental trust</p>

65 (Pages 254 to 257)

Marc A. Panucci

<p style="text-align: right;">Page 258</p> <p>1 documents or investment vehicle documents. 2 You don't recall trying to get those for 3 any purpose; am I right? 4 A. I don't recall, no. 5 Q. I am right that you don't recall 6 trying to get them; is that right? 7 A. That's correct. 8 Q. You weren't on the phone with 9 Mellon Bank or any Mellon financial 10 institution or any other financial 11 institution asking for the fundamental 12 trust documents from any earlier point in 13 time; is that right? 14 A. That is right. 15 Q. And you do recall some of these 16 trust documents or endowment documents to 17 be old? 18 A. Yes. 19 Q. If you had made such a contact 20 with a third party to get additional 21 underlying trust or endowment 22 documentation, would that be reflected in 23 your work papers? 24 MR. LUFT: Objection. 25 A. Are you asking me as of today or</p>	<p style="text-align: right;">Page 260</p> <p>1 documentations. 2 Q. And how is it that you know that 3 Amy was aware of such a representation? 4 A. Because Amy and I talked about 5 it. 6 Q. And the conversation was 7 essentially that she was told the same 8 thing you were told? 9 A. Yeah. I don't know how the 10 context was. I don't know if Amy was told 11 from the client, Amy told me or vice 12 versa. I don't know the nature of how it 13 was told to us. 14 Q. But you and she both understood 15 from the client, it is your belief, that 16 certain underlying trust documentation was 17 not at least in the client's files? 18 A. Yes. 19 Q. Do you recall discussing with 20 her, then, any efforts to get it from some 21 other source? 22 A. Not that I can recall. 23 Q. Do you recall discussing with 24 anyone at PriceWaterhouseCoopers such an 25 effort?</p>
<p style="text-align: right;">Page 259</p> <p>1 in the fiscal year '96? 2 Q. What you recall of your 3 practices in fiscal year '96. 4 A. I do not recall any situation on 5 the entities I've audited and as it 6 relates to hospitals or not-for-profits 7 needing to go to third party confirmations 8 as it relates to endowment agreements, so. 9 Q. So you don't really have a 10 practice? 11 A. I don't have, right, I don't 12 have a standard to answer that question 13 upon. 14 Q. Do you recall discussing with 15 anyone at PriceWaterhouseCoopers the 16 unavailability of any underlying trust or 17 endowment documentation? 18 A. Not that I can recall, but I 19 know others were aware of it. I don't 20 know if it was me telling them or not, 21 but -- 22 Q. How was it -- 23 A. -- I know Amy Frazier was aware 24 that there was a representation of, you 25 know, partial or incomplete</p>	<p style="text-align: right;">Page 261</p> <p>1 A. Not that I can recall. 2 Q. Do you recall seeking out the 3 input of specialists or lawyers at 4 PriceWaterhouseCoopers with respect to 5 your classification audit work? 6 MR. LUFT: Objection. 7 Q. Other than Mr. Thomas. 8 A. Except for Mr. Thomas, I can't 9 recall anybody else. 10 Q. Do you recall discussing whether 11 a specialist in endowment or investment 12 auditing should -- or a lawyer should be 13 consulted as a part of your classification 14 work? 15 A. Not that I can recall. 16 Q. Do you recall ever yourself 17 coming to the conclusion that the trust or 18 endowment language that you reviewed 19 called for you to seek legal advice? 20 A. Not that I can recall. 21 MR. JONES: We'll break here and 22 we will shortly thereafter conclude. 23 (A recess was taken at 4:08 p.m. 24 and the Deposition continued at 4:19 25 p.m.)</p>

66 (Pages 258 to 261)

Marc A. Panucci

<p style="text-align: right;">Page 262</p> <p>1 Q. Mr. Panucci, thank you for your 2 diligence in hanging with us this 3 afternoon but we're nearly concluding. 4 I'm going to ask you to refer 5 quickly back to Exhibit 4110 which you 6 have before you, I believe. 7 A. Yes. 8 Q. To Bates page ED 141. This is 9 on sort of the left-hand portion of the 10 document. And actually I lied. Could you 11 look a few pages prior to that, to ED 149. 12 A. Okay. 13 Q. And do you see that that is 14 another face page for another trust, this 15 one entitled the Edith Ann Oliver and 16 Edith Oliver Rea trust? 17 A. Yes. 18 Q. With Mellon trust number 19 510-000? 20 A. Yes. 21 Q. Do you recall reviewing this 22 page or this trust during your audit work 23 in 1996? 24 A. I do not recall. 25 Q. I'm going to ask you to skip a</p>	<p style="text-align: right;">Page 264</p> <p>1 establish a trust fund, the income from 2 which shall be expended for the 3 maintenance of the Allegheny General 4 Hospital in the north side Pittsburgh, 5 Pennsylvania." 6 Do you see that? 7 A. Yes. 8 Q. Do you recall reviewing that 9 language? 10 A. I do not recall. 11 Q. And then in the next paragraph, 12 which reads, "now" or starts, rather, 13 "Now, therefore, this agreement," and goes 14 on from there. Do you see that beginning 15 phrase? 16 A. Yes. 17 Q. It describes in the sentence 18 that follows or the phrase that follows, 19 the handing over of certain sum of money. 20 Do you see that, or stock, rather? 21 MR. RYAN: Stock, I think. 22 Q. Let me read it. It reads, 23 "External loan bonds." Do you see that? 24 "The parties of the first part do hereby 25 assign, transfer, set over and deliver to</p>
<p style="text-align: right;">Page 263</p> <p>1 couple of pages to ED 141 now, which I 2 think you'll tell me is a page that looks 3 to be the beginning of the trust document 4 and has the words, "this agreement" at the 5 top of it. 6 A. Yes. 7 Q. It appears to be a document 8 dated AD 1915; is that right? 9 A. Yes. 10 Q. Do you recall reviewing 11 documents that old in your endowment and 12 investment work at AHERF in fiscal year 13 1996 or for fiscal year 1996? 14 A. I know some of the endowments 15 were old. I do not know the specific 16 years they were originated in. 17 Q. This page has some language 18 describing income and proceeds of the sale 19 of securities. I'm going to ask you to 20 look at and then tell me whether you 21 recall reviewing it or language to its 22 effect. 23 In the first whereas clause, it 24 reads, the document reads, "Whereas the 25 said parties of the first part desire to</p>	<p style="text-align: right;">Page 265</p> <p>1 the party of the second part \$260,000 par 2 value of Anglo French five year five 3 percent external loan bonds." 4 Have I read that right? 5 A. I couldn't tell if it was 250 or 6 two -- okay. It's 260 in the words, yes. 7 Q. And then the next phrase says, 8 "To have and to hold the said securities 9 and the proceeds of the sale or conversion 10 of the same to said party of the second 11 part, its successors and assigns in trust 12 nevertheless for the following uses and 13 purposes." 14 Do you recall reading that 15 language during your audit effort? 16 A. I do not recall. 17 Q. You have had a chance during our 18 last break to review briefly Exhibit 4111 19 marked previously in the SEC proceedings 20 as Exhibit 134. Am I right? 21 A. Yes, briefly, briefly review it. 22 Q. Is there anything that arose 23 from that review that indicates to you 24 that Exhibit 4111 is, indeed, a copy of 25 the notebook or that you received from</p>

67 (Pages 262 to 265)

Marc A. Panucci

<p style="text-align: right;">Page 266</p> <p>1 either Mr. Zwirn or Ms. Cafarro in your -- 2 as a part of your work, rather, on the 3 fiscal year 1996 audit? 4 A. Nothing that I could recall that 5 that would be the binder. 6 Q. Having now the two before you 7 and hands folded over one, do you have any 8 basis for telling us that you believe one 9 or the other is more likely a copy of the 10 volume or the notebook you received from 11 Mr. Zwirn, more likely to be the copy of 12 the volume or notebook you received from 13 Mr. Zwirn? 14 MR. LUFT: Objection. 15 A. The only thing, as I sit here 16 today, would be the size of the binder 17 given to me is similar to Exhibit 4110, 18 but that's all I could tell you is the 19 size would approximate that. 20 Q. And is it fair to say that you 21 are not telling us under oath that Exhibit 22 4110 is not the binder Mr. Zwirn gave you. 23 Is that accurate? 24 A. Can you repeat that one more 25 time.</p>	<p style="text-align: right;">Page 268</p> <p>1 deposition? 2 A. I can't recall any other time 3 but yesterday, parts of 4110 were either 4 shown to me or read to me. 5 Q. And why do you think that? 6 A. Well, based upon meeting with 7 counsel yesterday. 8 Q. I'm saying, slightly different 9 thing. Did you see this exhibit on the 10 table and that's why you think that parts 11 of it were read to you or shown to you? 12 A. Well, I just can't say for 13 certainty whether it was that exact 14 exhibit that were being shown to me. 15 Q. But language like I read to you 16 today was read to you yesterday? 17 A. Yes. 18 Q. From a document that looked a 19 lot like Exhibit 4110? 20 A. Yes. 21 Q. And that was done by counsel? 22 A. Yes. 23 Q. Do you recall contacting any 24 third party about endowment or investment 25 work you were doing other than the tying</p>
<p style="text-align: right;">Page 267</p> <p>1 Q. Yes, that had too many negatives 2 I think we could parse it out, but it had 3 too many negatives. Let me try it again. 4 Can you testify with certainty 5 today that Exhibit 4110 is not a copy of 6 the binder that Mr. Zwirn gave you? 7 A. I cannot recall one way or the 8 other if this is the full binder that was 9 given to me or not. 10 Q. So the short answer is you can't 11 say with certainty that it's not the 12 binder or a copy of the binder; is that 13 right? 14 A. In certainty whether it's not or 15 it is, yes. 16 Q. Have you ever seen Exhibit 4110 17 or Exhibit 4111 before today in perhaps 18 your preparations -- strike the question. 19 Do you recall reviewing 20 yesterday in your preparation session 21 Exhibit 4110 or 4111? 22 A. Can you repeat that? 23 Q. Yes. Do you recall reviewing 24 yesterday Exhibit 4110 or 4111 or at any 25 other time in preparation for this</p>	<p style="text-align: right;">Page 269</p> <p>1 of sums for any reason? 2 A. The only other contact that I 3 would know of is we also got SAS 70 4 reports from third parties. 5 Q. What are SAS 70 reports? 6 A. They are reports done by the 7 financial institution or third party's 8 independent accountants on the internal 9 control environment at that third party 10 site. 11 Q. So they have to do with internal 12 controls at the financial institutions, 13 for example, in place there? 14 A. Correct. 15 Q. Did you ever learn, as a part of 16 your audit work, or after, that AHERF 17 stripped the dividend or interest income 18 from the Lockhart trust accounts and moved 19 it to a separate concentration or other 20 account at one of the Mellon 21 institutions -- 22 MR. LUFT: Objection. 23 Q. -- on a monthly or other 24 periodic basis? 25 A. Can you repeat that again? I'm</p>

68 (Pages 266 to 269)